

103
**THE PATENT PRIOR USER RIGHTS ACT AND
THE PATENT REEXAMINATION REFORM ACT**

Y 4. J 89/2: S. HRG. 103-1083 **HRG.**

**The Patent Prior User Rights Act and... THE
COMMITTEE ON
PATENTS, COPYRIGHTS AND TRADEMARKS
OF THE
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE
ONE HUNDRED THIRD CONGRESS**

SECOND SESSION

ON

S. 2272

**TO AMEND CHAPTER 28 OF TITLE 35, UNITED STATES CODE, TO PRO-
VIDE A DEFENSE TO PATENT INFRINGEMENT BASED ON PRIOR USE
BY CERTAIN PERSONS, AND FOR OTHER PURPOSES**

AND

S. 2341

**TO AMEND CHAPTER 30 OF TITLE 35, UNITED STATES CODE, TO AF-
FORD THIRD PARTIES AN OPPORTUNITY FOR GREATER PARTICIPA-
TION IN REEXAMINATION PROCEEDINGS BEFORE THE UNITED
STATES PATENT AND TRADEMARK OFFICE, AND FOR OTHER PUR-
POSES**

AUGUST 9, 1994

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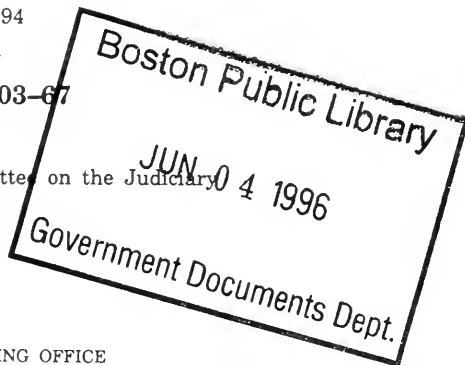


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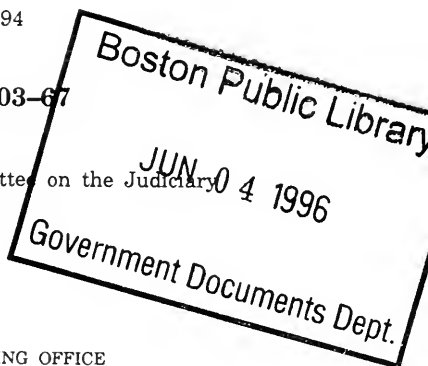
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THE PATENT PRIOR USER RIGHTS ACT AND THE PATENT REEXAMINATION REFORM ACT

TUESDAY, AUGUST 9, 1994

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
SUBCOMMITTEE ON PATENTS, COPYRIGHTS, AND TRADEMARKS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:08 a.m. in room 226, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman of the subcommittee), presiding.

Also present: Senator Grassley.

OPENING STATEMENT OF HON. DENNIS DECONCINI, A U.S. SENATOR FROM THE STATE OF ARIZONA

Senator DECONCINI. The Judiciary Subcommittee on Patents, Copyrights and Trademarks will come to order. Senator Hatch, the ranking member, is in other hearings this morning and I don't believe he will be here, although he has sent word that he intends to try to get here, and he suggests that we proceed.

I would very much like to thank the witnesses for being here today. On today's agenda are two bills, S. 2272, the Patent Prior User Rights Act of 1994, and S. 2341, the Patent Reexamination Reform Act. I believe both of these bills will make positive changes in the U.S. patent laws.

The Prior User Rights Act is the product of many hours of hard work and represents a significant compromise. This bill seeks to remedy the inequitable situation where a patent holder can prevent a prior inventor from using a process critical to his or her business.

Under this bill, a prior user would be allowed to continue to commercially use the process even though it is the subject of a patent filed later by another.

The needs of patent owners and their right to profit from their efforts have been considered and accommodated in this bill. Accordingly, strict requirements must be met. First, the prior user must, in good faith, have commercially used the process in the United States or made effective and serious preparation to do so. Secondly, such use must have occurred before the earliest effective filing date of the patent application. Third, no prior user right may be based on information obtained, directly or indirectly, from the patentee or the patentee's agent. And fourth, the use of the process must not have been abandoned.

In addition, the scope of the prior user right is significantly limited. Only that subject matter claimed in the patent that has been commercially used or for which there has been effective and serious preparation for its use in the United States before the critical date is protected. Prior user rights are not a general license and can only be transferred as part of a sale or transfer of the entire business.

This bill is based on principles widely recognized throughout the world community. It provides U.S. inventors with a right already provided for in the United Kingdom, Germany, and the vast majority of industrial Nations. These countries have long recognized the need for prior user rights, and we would be wise now to do the same.

Today we are also here to discuss the Patent Reexamination Reform Act of 1994. This bill is strongly supported by the Administration, I am advised. The goal of the bill is to improve the patent reexamination process by broadening the basis for and scope of reexamination proceedings at the Patent and Trademark Office, known as the PTO. It also will significantly increase participation in reexamination procedures and appeals and will preclude reexamination in specified circumstances.

These changes will provide patent owners and third parties alike with a cost-effective alternative to patent litigation in Federal courts to resolve many questions of patent validity.

A consensus has developed within the patent community and representative patent organizations that there is, in fact, a problem with the reexamination process and that reform is needed. This bill addresses many of the concerns surrounding the issue without upsetting the balance needed to ensure confidence in the patent system.

I support the changes made by both bills before us today and feel confident they will provide clear benefits for patent owners and third parties alike, and will improve the operation of the U.S. patent system.

Our first witness today will be the Commissioner of Patents and Trademarks, Mr. Bruce Lehman.

Mr. Lehman, we are very pleased to have you here today. If you would like, you may introduce your counsel and proceed with summarizing your statement.

STATEMENT OF BRUCE LEHMAN, COMMISSIONER, PATENT AND TRADEMARK OFFICE, WASHINGTON, DC; ACCOMPANIED BY CHARLES VAN HORN, DEPUTY ASSISTANT COMMISSIONER OF PATENTS FOR POLICY AND PLANNING

Mr. LEHMAN. Thank you very much, Mr. Chairman. If it pleases the chair, I will be happy to have my statement put in the record and I will summarize it for you.

I would like, first of all, to thank you for holding these hearings today on these two important reforms in the patent system. I think your decision to do so at a time when you are extremely busy with other matters is typical of your leadership that you have offered to the patent and trademark system in the United States. We deeply appreciate that and will sorely miss your loss of leadership when you leave the Senate this year.

I would like to introduce Charles Van Horn, who is Deputy Assistant Commissioner of Patents for Policy and Planning. Mr. Van Horn is typical of the outstanding career people that we have at the Patent and Trademark Office whom I have come to know very well in the last year, and we are very lucky to have those people here to help us.

The first bill before you today, Mr. Chairman, S. 2272, establishes a "prior use" defense—it's called "prior user right" in the bill, but I really think a better way to look at it is a prior use defense—to an action for patent infringement. Under this bill, an inventor who does not obtain patent protection would not be liable for use of an invention if it is subsequently patented by another.

The legislation strikes a careful balance between the rights of an individual or a company who has relied on trade secrecy to protect an invention, and a subsequent independent inventor who has turned to the patent system for that protection. It achieves this balance through important restrictions on the availability and character of the prior use defense.

First, the prior user must establish that the invention was either in commercial use, or that he or she had made effective and serious preparation for use, within the United States. Mere experimentation will not give rise to a prior use defense.

The prior use defense cannot be asserted if the invention was derived from the patentee, or the prior user abandoned the invention and ceased using it before the later inventor filed for patent protection. This ensures that the defense will only be available to those who independently acquire the invention and take active and ongoing steps to use it.

The defense is personal in nature. I think this is very important to understand. It cannot be licensed to others, nor can it be transferred—except, of course, where the entire business which uses the invention is sold.

The prior use defense is limited in scope to cover only that subject matter claimed in the patent that was commercialized, or for which substantial preparations were made for its commercialization. The prior user can expand the scale of this use of the patent invention, but cannot later begin a use that would infringe on other claims of the patent.

These restrictions on the availability and use of the prior use defense will ensure that it does not undermine the legitimate rights of the patent owner, yet they will provide much-needed certainty to businesses faced with the often difficult decision as to how best to protect an invention.

That is our comment on S. 2272.

The second bill that you have introduced, Mr. Chairman, at the request of the Administration, and we greatly appreciate that, is S. 2341. This bill will provide inventors and patent owners with a more effective reexamination procedure to reassess certain questions of patentability.

Earlier this year we held a series of public hearings on how the patent system is serving the computer software industry. We heard from over 100 people, and we received about 300 written submissions. Those people testified and expressed their concern over the validity of patents over prior art and over the ability of third par-

ties to challenge such patents. There was nearly unanimous belief in that testimony and in those submissions that our current reexamination procedures do not provide enough third party participation to encourage members of the public to bring forward all prior relevant art; and, of course, the prior art is absolutely critical to issuing a valid patent.

Under current law, third parties can participate only nominally in reexamination proceedings and cannot appeal results that are adverse to their interests. Furthermore, reexaminations may only be initiated to review substantial new questions of patentability over patents or printed publications. These restrictions have made patent reexamination an orderly, expedited procedure; however, by the same token, I think that perhaps they have been a little too restrictive, and that is one of the reasons why our reexamination system has not lived up to its potential that it was intended to have in 1980 when it was enacted.

Simply put, our current reexamination procedure is not considered by third parties to be a totally effective procedure for reviewing the scope and validity of patents, so they end up in court, spending millions of dollars if they have to, on litigation.

The legislation addresses the basis of this lack of confidence in the patent reexamination process and it provides third parties, now, with an opportunity to participate meaningfully throughout the reexamination proceedings, but we believe that it will do so without converting the reexamination into a full-scale inter partes procedure, which we think is appropriately left to litigation.

Third party requestors will be able to appeal final determinations by the Patent and Trademark Office in reexamination proceedings; they can't do that now, but they will have to pay the price of preclusion against subsequent litigation of matters addressed, or that could have been addressed, during the reexamination in subsequent judicial or administrative proceedings.

Finally, this bill will expand the grounds upon which one may challenge patentability in a reexamination proceeding to include compliance with all aspects of 35 U.S.C. 112, except for the best mode requirement. This, we believe, is an appropriate expansion of the grounds for initiating a reexamination, as it would make available all the special, technical, and legal expertise of our examining corps with regard to the key statutory elements of patentability in which they are very expert, issues which they normally consider when they are doing the initial examination itself.

The changes proposed by this bill will give patent owners and third parties alike a speedy and inexpensive and reliable process to resolve important questions related to patent validity. By making these changes we will enhance the public's perception of quality in patents, and that's really the primary emphasis of the Clinton Administration's administration of the patent system. We want to improve the quality of patents that are issued and enhance public confidence in the quality of the patent system so that we issue and keep enforced patents that you can take to the bank and not to the courthouse.

The two bills together will make our patent system more responsive to parties having concerns over liability for patent infringement.

ment without altering in any way the inherent nature of the patent right.

So I am pleased to be here to offer the support of the Administration for these two bills this morning, Mr. Chairman. I want to thank you for your leadership in this area, and I also want to thank Senator Hatch, the ranking minority member, for his leadership in this area and for the bipartisan spirit of cooperation in which we have always carried forward these intellectual property matters.

[The prepared statement of Bruce Lehman follows:]

PREPARED STATEMENT OF BRUCE A. LEHMAN

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE: I am pleased to appear today to testify on two bills that will improve the operation of our patent system. The first bill, S. 2272, establishes a prior user right. This right will provide inventors, who decide not to seek patent protection, with a limited degree of protection against liability for patent infringement if the invention in question is subsequently patented by another. The second bill, S. 2341, will provide inventors and patent owners with a more effective reexamination procedure to reassess patentability. The two bills together will make our patent system more responsive to parties having concerns over liability for patent infringement without altering the inherent nature of the patent right. I am pleased to offer the support of the Administration for both bills.

The first bill, S. 2272, would create a "prior use" defense—a so-called "prior user right"—to an action for patent infringement. The defense would be available to inventors who develop and make commercial use of, but do not patent, an invention that is independently developed and subsequently patented by another. As proposed, the prior use defense would be limited in several important respects.

First, the defense would be available only to those parties that had either made actual commercial use of a particular invention, or had made "effective and serious" preparation for use of the subsequently patented invention. A prior use defense could not be based, for example, on activities amounting only to preliminary research or investigation.

Second, a party charged with infringement of a patent would bear the burden of proof in establishing the prior use defense. This provision appropriately places the burden of proof on the party in the best position to establish the conditions necessary to assert the defense.

Third, the bill imposes includes safeguards to prevent the prior use defense from being asserted in inappropriate ways. For example, under proposed § 73(e)(2)(A), one would not be able to assert a prior use defense if the activity upon which the defense is asserted was based on information derived from the patent owner or parties in privity with the patent owner. Similarly, under proposed § 73(e)(2)(B), one could not assert a prior user right if the activity in question had been abandoned on or after the earliest effective filing date of the patent subsequently obtained by the later inventor.

Fourth, the bill would effectively but fairly limit the permissible scope of use of the patented invention by the prior user. Under § 273(c), rights provided to a prior user only extend to those aspects of the patented invention that the prior user was in possession of prior to the earliest effective filing date of the application leading to the patent. The bill also takes into account commercial realities by permitting the prior user to "make and use variations and improvements" of the patented invention. This, for example, would permit a prior user to increase in a reasonable manner his volume of use of the patented invention. However, these variations in use of the protected invention cannot rise to the level of infringing additional claims of the patent. And § 273(e)(3) reiterates that the prior user right is not a general license under the patent.

Finally, the bill specifies that the right is personal to the prior user and cannot be assigned, licensed or transferred independent of transfer or sale of the entire business or enterprise that had engaged in the activity giving rise to the prior user right. This provision will preclude prior users from converting the defensive character of the right into a freestanding transferable license to practice the patented invention.

We believe these restrictions on the availability and character of the prior use defense strike the proper balance between the rights of a patent owner and the rights of an earlier innovator who has elected to use trade secrecy to protect an invention.

As you know, many inventions consist of relatively simple, incremental improvements of existing products or processes. For example, a company may develop minor improvements to a manufacturing process that increases its overall efficiency. Despite their limited stature, these inventions often give a company an identifiable commercial advantage over its competitors. Yet, in many cases it is unclear whether these incremental advances will meet the statutory requirements of patentability, or whether the "costs" of seeking patent protection, including public disclosure of the invention, will be offset by the benefits of a finite period of patent protection. Under these circumstances, it is entirely appropriate, as well as commercially sound, for an inventor to use trade secrecy to protect the invention. As the Supreme Court stated in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 94 S.Ct. 1879, 40 L.Ed. 2d 315, 181 U.S.P.Q. 673 (1974),

[t]rade secret law and patent law have co-existed in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other. Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation. Trade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it.

S. 2272 would help preserve this desirable balance between patent and trade secret protection in the United States. It would do so by providing a very limited right to a prior user to continue to use an invention that he had either elected to protect through trade secrecy or not to protect at all. By making such a right available, the pressure that companies currently face to pursue patent protection for minor innovations, often primarily as a defensive tactic, would be mitigated. By the same token, we do not believe that the availability of a prior use defense will drive companies to protect innovation through trade secrecy at the expense of the use of the patent system. That choice will continue to be dictated primarily by the characteristics, effectiveness and suitability of each form of protection vis-a-vis the invention in question. Prior user rights thus will permit companies to choose with confidence the most effective means for protecting their important technology.

We also note that the proposed prior user right does not alter the validity or character of patent rights held by a subsequent inventor. Patent owners will be able to enforce rights fully against all others that make, use or sell the patented invention without authority, despite the fact that one has successfully asserted a defense based on prior use.

In contrast, prior use may, under current U.S. law, serve as a basis for invalidating a patent. Specifically, a patent may be invalidated on the basis of prior invention by another under 35 U.S.C. § 102(g), provided the first inventor does not conceal, suppress or abandon the invention. But today it is unclear when maintaining some aspects of an invention in secrecy will amount to concealment or suppression of an invention. For example, in 1975 the Court of Appeals for the Seventh Circuit held that a prior invention whose manufacturing details were kept as a trade secret could properly serve as a basis for invalidating a patent under 35 U.S.C. § 102(g). In doing so, the court explained:

There are three reasons why it is appropriate to conclude that a public use of an invention forecloses a finding of suppression or concealment even though the use does not disclose the discovery. First, even such a use gives the public the benefit of the invention. If the new idea is permitted to have its impact in the marketplace, and thus to "promote the progress of science and useful arts," it surely has not been suppressed in an economic sense. Second, even though there may be no explicit disclosure of the inventive concept, when the article itself is freely accessible to the public at large, it is fair to presume that its secret will be uncovered by potential competitors long before the time when a patent would have expired if the inventor had made a timely application and disclosure to the Patent Office. Third, the inventor is under no duty to apply for a patent; he is free to contribute his idea to the public, either voluntarily by an express disclosure, or involuntarily by a noninforming public use. In either case, although he may forfeit his entitlement to monopoly protection, it would be unjust to hold that such an

election should impair his right to continue diligent efforts to market the product of his own invention. *Dunlop Holdings v. Ram Golf Corp.*, 524 F.2d 33; 188 U.S.P.Q. 481 (7th Cir. 1975).

See also, *E.I. Du Pont De Nemours & Co. v. Phillips Petroleum Co.*, 849 F.2d 1430, 7 U.S.P.Q.2d 1129 (Fed.Cir. 1988); *International Glass Co. v. United States*, 408 F.2d 395, 159 U.S.P.Q. 434 (Ct.Cl. 1969). This legislation will remove uncertainty in these circumstances and permit businessmen to confidently plan their operation. And it will do so in a way that is less detrimental to the patent owner's interests than is possible under current law.

Prior user rights will also redress a current imbalance of rights between U.S. and foreign businesses. Prior user rights are available in most foreign, industrialized nations. This means that in those countries, U.S. businesses that hold patents cannot enforce their rights against companies that can demonstrate prior use of the patented invention. The converse, however, is not true. A domestic prior user has no effective defense based on trade secret-based prior use when facing a threat by a foreign company that obtains a U.S. patent covering the invention. Recall that presently over 42 percent of all patents issued in the United States are issued to foreign entities. Providing a prior user right will harmonize one aspect of the U.S. patent system with the patent systems of a majority of our trading partners and will thus address this disparate treatment of U.S. businesses.

Prior user rights may also address certain concerns that have been expressed in the software industry. Recently, the Patent and Trademark Office (PTO) held hearings and solicited public input on the use of the patent system to protect software-related inventions. We heard from a wide range of interests, including small and large software companies, independent software developers, patent attorneys and trade associations. Several companies, particularly small software start-up firms from Silicon Valley, expressed concerns over potential liability for patent infringement based on their use of "old" or "well known" software techniques. These individuals believe that patents have been granted that cover such techniques, in part because the techniques were not documented in patents or printed publications. The proposed prior use defense could address one aspect of the problem these companies have described. It would enable a company that had made the requisite degree of commercial use of the "old" technique under the appropriate circumstances to avoid liability for patent infringement. It would provide this relief without requiring the company to prove that the patent being asserted against them is invalid. Importantly, the type of evidence that could be used to establish a successful prior use defense could encompass forms of evidence that do not fit cleanly within our current definitions of prior art. And while we are unsure as to how frequently this scenario may arise, we believe the legislation would address the concerns as they have described.

Of course, some have argued that creating a new defense to patent infringement based on prior use will diminish the value of patent rights, particularly for patent owners that gain value from patents through patent licensing, rather than manufacturing products covered by patents. Specifically, some have argued that prior user rights will cast a cloud over patent rights, creating uncertainty in terms of full enforceability of patent rights, and lessening the value of patents to potential licensees who may be unable to enforce the rights provided against commercial competitors. Others have suggested that prior user rights will excessively strengthen trade secret rights to the point of discouraging use of the patent system, and with that, early public disclosure of innovations. We are cognizant of these concerns, but believe that the current bill creates an appropriately limited prior user right that will not affect the value of patents, including their value in licensing, or noticeably diminish use of the patent system for protecting innovation. As the Advisory Commission on Patent Law Reform noted in 1992, "[t]he basic difficulty in providing a prior user right is crafting the right so that it does not undercut the value of the exclusive rights obtained through a patent grant, or the desirable goal of early disclosure of inventions * * *". We believe the current bill succeeds in crafting the prior user right in the appropriately balanced manner.

The second bill to be addressed in this hearing, S. 2341, would reform our reexamination system in several important respects. First, the bill would expand the grounds upon which reexamination of a patent could be initiated to include non-compliance with all aspects of § 112 of title 35, United States Code, except the best mode requirement. Second, the bill would permit limited, yet meaningful participation by a third-party requester throughout the reexamination proceeding. Third, the bill would provide a third party requester with a right of appeal from a final decision of the PTO with regard to the results of the reexamination. And finally, the bill would help prevent third parties from using reexamination to harass patent

owners by imposing important restrictions on whether and when requests for reexamination may be filed. We thank the Chairman for introducing this bill on behalf of the Administration.

In 1980, Congress created the reexamination procedure, intending it to be an expedited, low-cost alternative to patent litigation in which certain aspects of patent validity could be reviewed. To meet this goal, reexamination was structured as an *ex parte* proceeding that excluded participation by third parties during the actual reexamination proceedings. Reexamination was further limited to review of only certain categories of patentability; namely, compliance with 35 U.S.C. § 102 and § 103 over patents and printed publications. Substantial new questions of patentability based on compliance with other statutory requirements of patentability were not permitted to serve as a basis for initiating reexamination.

In our current system, third parties may only participate with respect to initiation of a reexamination proceeding. Specifically, a third party may cite prior art consisting of patents or printed publications, and request reexamination on the basis of that prior art. If the PTO finds that a substantial new question of patentability exists in view of that prior art, the Commissioner will issue an order granting the reexamination. The patent owner is then given the option of responding to the reexamination order. If the patent owner so responds, the third party may file a subsequent reply. This ends the substantive participation in the reexamination by the third party requester.

These restrictions have helped make patent reexamination an orderly, expedited procedure. However, by the same token, these restrictions are why I believe our reexamination system has not lived up to its potential. As I mentioned earlier, the PTO heard many concerns expressed by companies and individuals in the software industry over potential liability under patents in our recent public hearings. Many people who testified at our hearings expressed concerns over the lack of cost-effective means for challenging patent validity, citing in particular the perceived ineffectiveness of our current reexamination system as a means for third parties to challenge patents of questionable validity. For example, William Neukom, General Counsel of the Microsoft Corporation testified that:

The threat of litigation involving a patent of questionable validity can be particularly damaging to a smaller company, which may not have the financial or the human resources to effectively challenge the patent's validity in the federal court process. Although the existing reexamination process affords a potential defendant an alternative venue in which to contest a patent's validity, the utility of the current reexamination process is limited by its *ex parte* nature and the limited scope of prior art that can be considered.

Others were more strident in the criticism of the current reexamination system and their calls for reform. Diane Callen, representing the Lotus Development Corporation and the Business Software Alliance stated:

The current reexamination process * * * is generally not viewed as a viable option by opponents to a patent due to the largely *ex parte* nature of the process. The BSA urges that reexamination be modified to provide more of an inter-parte proceeding, allowing opponents to a patent to feel more comfortable in relying on the procedure to efficiently resolve their concerns in what may be the most efficient forum.

One particularly striking comment I heard from several speakers was that even if they had pertinent prior art that could invalidate a patent, they would not initiate a reexamination on the basis of that prior art, but would instead reserve it for use in litigation in the Federal courts. Such individuals cited the absence of effective third party participation in the proceeding and the fact that patents that survive reexamination gain a perception of "enhanced" validity when subsequently enforced, particularly in the view of juries. Comments like these suggest to me that as far as third parties are concerned, there is a significant lack of public confidence in the current reexamination system as an effective means for challenging the validity of patents.

S. 2341 addresses the basis of this lack of public confidence in the patent reexamination process. Most importantly, if enacted, it will provide third parties with an opportunity to participate throughout the reexamination proceedings, but will do so without converting reexamination into a full-scale inter partes procedure. The bill accomplishes this by permitting a third party that has initiated a reexamination to provide written comments on responses to official actions of the PTO made by the patent owner. It does not permit the third party to raise new issues during reexamination, nor does it give the third party the option of delaying the proceedings by filing multiple responses or by requesting extensions of time. Third parties will also

gain a right of appeal from a final determination by the PTO in the reexamination proceeding. This right of appeal, however, comes at the cost of preclusion against subsequent litigation of matters addressed, or that could have been addressed, during reexamination in subsequent judicial or administrative proceedings, if both the third party and the patent owner participate in an appeal to the Federal Circuit following the reexamination proceeding.

The bill will also expand the grounds upon which one may challenge patentability to include compliance with all aspects of 35 U.S.C. § 112, except best mode. This, we believe, is an appropriate expansion of the grounds for initiating reexamination. Questions of compliance with § 112 invariably focus on claim scope, specifically, whether the claims are fully supported by the specification. Such questions often lie at the heart of a patent dispute. By making it possible to review these questions before the PTO, patent owners and third parties alike will benefit. It is also important to recognize that the bill would not require the PTO to address matters with which it is unfamiliar. Instead, the bill would make available the special technical and legal expertise of the PTO examining corps to review compliance with a broader range of statutory requirements of patentability.

Finally, although a key reason for S. 2341 is to "open up" reexamination, the bill has been carefully crafted to ensure that reexamination does not become a vehicle for harassing patent owners. The bill contains two important safeguards in this regard. First, as noted above, the bill explicitly estops a third party from further litigating issues that were or could have been addressed during the reexamination if they participate in an appeal to the Federal Circuit arising out of the reexamination proceeding. This measure will prevent parties from using reexamination simply as a prelude to litigation on the same patent validity issue. Second, the bill precludes a third party from initiating multiple concurrent reexaminations, or from initiating a second reexamination on the same issues resolved in an earlier reexamination proceeding initiated by that party or its privies.

The changes proposed by the bill will thus make reexamination a more effective, inter-partes procedure, giving patent owners and third parties alike a speedy, inexpensive and reliable process to resolve important questions related to patent validity. I also believe the bill effectively addresses the calls for reform of the reexamination system that have emanated not only from the software industry, but from the patent bar and other industry groups.

I thank the Chairman for his assistance in introducing this legislation, and would be pleased to address any questions the Committee has on either bill.

Senator DECONCINI. Commissioner, thank you.

I yield to the Senator from Iowa for any opening statement he may have.

Senator GRASSLEY. I don't have an opening statement. I will have some questions.

Senator DECONCINI. Very good.

Mr. Commissioner, on the reexamination legislation, have you estimated what the cost implications could be for the Patent Office in setting up and expanding the reexamination process?

Mr. LEHMAN. Yes, we have, Mr. Chairman. At the present time our costs for reexamination come out to about \$5,100 on the average, but we only charge, I believe, \$2,800—sorry, it's \$2,250—for the reexamination. So we are actually subsidizing some of the reexamination process at the present time.

We assume that with regard to third party-initiated examinations, that the actual cost to the Patent Office will rise, probably somewhere in the range of \$8,700, and we'll probably want to raise, for those procedures, the fee that we charge. I would assume that we're not going to raise it to the \$8,700; we're going to keep some subsidy level in there because, particularly with regard to small businesses and individuals who can't afford the million-dollar lawsuit, this is a very effective procedure and we want to keep it effective and reasonable for them. So what we're going to do—and it's permitted in the legislation—is hold public hearings once the legislation is passed, and after hearing from our customers we will try

to set an appropriate level of fees for this expanded reexamination process.

Senator DECONCINI. A reexamination now costs \$5,800, and its fee is \$2,250, so you're subsidizing more than 50 percent of it?

Mr. LEHMAN. Actually, it's \$5,100, so it's just about half of it.

Senator DECONCINI. Is that how much you would anticipate subsidizing if this passes?

Mr. LEHMAN. Well, I'd rather not lock ourselves into that figure, Mr. Chairman, because I think we want to hear from our customers and the people out there what is reasonable to pay. Obviously, to the extent that we pick up some of the costs, then that ultimately comes out of the payment of fees for the processing of patent applications. But, you know, we don't have "billable hours" in the Patent and Trademark Office. We charge people flat fees, and some patent applications are more expensive than others.

We really need to set these fees at an appropriate level that people can afford to pay, but will still keep the whole patent and trademark system going. So I think it's really important for us to hear what our customers have to say.

Senator DECONCINI. But you're always up against the budget crunch since you can't keep all the fees you raise. Aren't they likely to force you to raise fees if you keep the subsidy as high as it is now?

Mr. LEHMAN. Obviously, Mr. Chairman, one of the more serious administrative problems that I have to face in running the Patent and Trademark Office is the fact that we do not receive—have not been receiving—all of our fee revenue to run the Patent and Trademark Office. I think the Senate-passed appropriations bill this year would take about \$30 million out of our fees. That's a lot of money. Believe me, that could probably pay all the costs of these reexaminations and a lot more.

So that definitely has to figure into this equation, Mr. Chairman. We are hoping that at the end of the process the House figure will be accepted and we won't have quite the same hit.

Senator DECONCINI. I do too, and I've talked to Senator Hollings about that. I'm very concerned about that. The only reason I raise it is that I'm concerned that you're setting yourself up for a bigger hit when OMB sees that you're subsidizing these applicants to the tune of 60 percent, which doesn't trouble me. I think many of the PTO's costs should be paid for as a public expense, but that isn't the way things run in this town.

Senator GRASSLEY. Mr. Chairman?

Senator DECONCINI. Yes, sir?

Senator GRASSLEY. Is your question connected with a concern that the person that might want to get a patent, might not get it because of the cost? Is that the rationale for this legislation? Is that what you're concerned about?

Senator DECONCINI. No, the rationale is set out as the Commissioner has explained the need to have this process, as I understand it. My concern is that the Administration keeps looking to the Patent and Trademark Office as kind of a "cash cow" to use for other government expenses. So when they put in new fees that are subsidized to the tune of 60 percent, as the present reexamination fee is, that's going to be a target OMB will justify it by saying, "Well,

if you can afford to subsidize 60 percent of the fee for third party reexamination," then somebody at OMB is going to put on his green eyeshade and say, "Well, they can raise those fees, so let's take another \$30 million out of them." That's my concern, Senator Grassley.

Mr. LEHMAN. Mr. Chairman, I think it is important to recognize that the Administration and the Office of Management and Budget have recommended that the Patent Office receive its full fees. It was the Appropriations Committees that decided to divert the fees.

Senator DECONCINI. That's true.

Turning to the prior use rights, and then I'll yield to my friend from Iowa, some people are concerned that the prior user rights bill will increase the use of trade secrets to the detriment of public disclosure. The goal of the patent process is to protect an inventor's intellectual property but then to make it available to the public through the patenting of the invention. Do you believe this is a concern case? And do you expect a decrease in patent filings if this bill is passed?

Mr. LEHMAN. Mr. Chairman, the short answer to that is no, I don't expect a decrease in patent filings and I don't think that this is going to divert people from using the patent system, because trade secrecy is already available to people, and to the extent that they're going to use it, they're going to use it.

Senator DECONCINI. It certainly puts us on equal footing with other countries, as you mentioned in your statement. It concerns me that the American Bar Association took a position, as I understand it, in opposition to this, which is very disturbing to me. I haven't read the resolution but I've been told about it, that it's on the basis that more public disclosure begets filed patents, and that's what the Patent Office and the process is all about.

I wonder, did you have any contact with the Bar Association or their section on patents and trademarks?

Mr. LEHMAN. It's my understanding, Mr. Chairman, that this decision by the ABA counsel was only made within the last week. It was not made after debate in the entire Patent, Trademark, and Copyright Law Section. Actually, the Patent, Trademark, and Copyright Law Section of the ABA is unusual among ABA sections in that normally their positions are taken on the basis of a debate with all the members of the section who want to participate being present. That was not the case here.

But I think it's safe to say that on any meritorious matter there are going to be differences of opinion, and I respect the view of those who feel very strongly that we ought to be careful not to in any way limit the advantages that we have in the patent system which cause people to disclose the invention. That's clearly one of the major benefits of the patent system.

But the Supreme Court has really dealt with this issue before in *Kewanee Oil v. Bicron*. They have determined that there is nothing incompatible about the use of trade secrecy, and that in fact trade secrecy itself does stimulate invention, so we have this other element, this common law or State law element, already in our law. It's been considered not to be preempted by the patent system. All this legislation does is make that work better and fairer for all of the users of the system.

I would respectfully disagree with those who have made a somewhat different judgment, but I think you will hear from other people in the bar and other bar groups that realize that there is a difference of opinion on this.

Senator DECONCINI. What do you think is the reason some businesses keep their process secrets and not just go ahead and get a patent?

Mr. LEHMAN. Well, Mr. Chairman, the patent system, as much as we try to keep down the costs, is still somewhat expensive, particularly for the small business user. I think small businesses are the people who are going to make the greatest use of this prior user right. If you have two guys in a garage, just getting started, oftentimes you don't even have the sophistication to know about the patent system and you find that you are using a technology which you may invent, or as far as you know is in the public domain, that has not been patented, and you build a business on it; you don't want somebody coming in with an army of lawyers and suing you later on. Usually it's the big patentee going against the little guy. So this is really protection for the little guy, and I should say that it goes right back to what we heard from users in the software industry. The software industry has a lot of companies that were founded by two guys in a garage. They weren't very sophisticated. They used information that was out there, and this is an attempt to create a legitimate defense for them when they—

Senator DECONCINI. Will the little guy here have to hire a lawyer and go through a big expense if, in fact, someone who has patented this secret now tries to keep him from using it?

Mr. LEHMAN. Well, obviously, if he gets sued—

Senator DECONCINI. Because the burden is on—

Mr. LEHMAN [continuing]. Just as is the case now, Mr. Chairman, he will have to hire a lawyer. Obviously, though, the existence of this prior user defense presumably would signal the patentee's lawyer not to bring a lawsuit in the first case. So I think that we will see fewer lawsuits against these "garage inventors."

Senator DECONCINI. It's more of a deterrent?

Mr. LEHMAN. That's correct.

Senator DECONCINI. The Senator from Iowa?

Senator GRASSLEY. Thank you, Mr. Chairman.

Considering the fact that our laws, for sure—and maybe even more importantly, our Constitution—have always given such a high priority to the protection of patents, and then you have described in your testimony the limited nature of the defense to be given prior users, but I don't know whether you really addressed how serious of a problem you consider this to be. How serious of a problem is it that this legislation is trying to deal with?

Mr. LEHMAN. Well, I think for some people, Mr. Grassley, it's a very serious problem. I think where the problem has been the most serious is where we have a lot of—in this country we have a phenomenon that you don't see abroad, and it's really interesting. Since I've had this opportunity to serve in the Administration and get kind of a global view and go around the world, I'm very optimistic about our country and very proud of it. One of the things that really separates our country from our competitors around the world is the two guys in the garage. It's the innovator, the small

businessman. What's happening right now—in fact, what gave rise to this legislation—is that you get the big foreign companies sometimes who have the patent, and we've got some poor guy in the United States who has been working in his garage, he has come up with this technology, he didn't have the sophistication or the wherewithal to file a patent application, and then what happens? The big foreign corporation hires the K Street lawyer to bring a lawsuit against him, and he's put out of business. That really, in terms of actual facts—those are the primary facts which have given rise to this legislation. It is being pushed by entrepreneurs who are exactly in that category.

Senator GRASSLEY. I don't disagree with anything you said. I know it's very difficult to quantify, but out of the global picture as you see it on inventions and getting patents these exceptions where somebody has invented something before somebody else did but didn't get a patent for it, wouldn't even be 1 percent of all the inventions, would it?

Mr. LEHMAN. I think this is a very—this not an earth-shattering piece of legislation. This is a fine-tuning of the system, Senator Grassley.

Senator GRASSLEY. Do you think that it is, then, justifiable to create an exception to the exclusivity normally granted to a patent holder?

Mr. LEHMAN. Yes, sir, I do. And this is a defense, as we indicated.

Senator GRASSLEY. Do you support it in a way that you don't think that such an exception would discourage inventors from seeking patents?

Mr. LEHMAN. Senator, if I thought that I couldn't possibly support the legislation or recommend that the Administration support it. In fact, we had earlier versions of a prior user right that were more expansive, and this one has been really narrowed now to a point where it's not a prior user right; it's a prior user defense, and it really protects the very kind of people that we ought to be looking to protect legislatively, and at the same time I don't think it does any damage to the fundamental validity of the patent system.

Senator GRASSLEY. Now, when my colleague, the chairman, was talking about fees, he was referring to S. 2341. It seems to me that in regard to this issue, fees can be brought up as well, and in regard to the extent to which the taxpayers subsidize the process.

When there is some subsidy, obviously, maybe it's not justifiable to raise the issue about whether we—specifically you, administering the office—do you look at what you can do to keep costs down?

Mr. LEHMAN. Senator, the short answer is yes, we do what we can do to keep costs down, but I think it's really important to understand that there is no taxpayer subsidy for the Patent and Trademark Office at all. We don't get a single penny from tax revenue. Our office is entirely funded by the fees that people pay us—

Senator GRASSLEY. Do you subsidize the Federal Treasury?

Mr. LEHMAN. Unfortunately, that's what's happening right now. America's creative community is being forced, if the Senate appropriations bill passes this year, to pay \$30 million into general revenue to subsidize other programs.

Senator GRASSLEY. OK.

Then do you have a situation—and I don't know how the fee schedule works—but do you have a situation where some more costly patents then subsidize the small, single person who is looking for a patent? Or is everybody on a par? Is it all equal, regardless?

Mr. LEHMAN. No, it's not all equal, Senator Grassley.

First of all, we don't charge according to the complexity of the patent. Some people submit 400-page patent applications and others submit 10-page patent applications. Obviously, a patent application in some technologies takes more time and energy and more expense to process than others. We have flat fees for everybody. So naturally, there is some sort of cross-subsidization in the system. But in addition to that fact, it is important to realize that we have built into the patent fee structure a special deal for small businesses and individuals.

Senator GRASSLEY. OK.

Mr. LEHMAN. They pay half what corporate inventors pay. So we are already subsidizing them.

Senator GRASSLEY. Let me go on. I think I'm taking too much time on this point.

I just want to make this point. Does this fee that anybody, large or small, might pay have anything to do with the fact that some people don't get a patent? Then will we be in a situation where we need this legislation? Do you ever see that as an impediment for people getting a patent?

Mr. LEHMAN. The fee structure?

Senator GRASSLEY. Yes.

Mr. LEHMAN. I'm sure that for some people the fee structure is an impediment, although I think it's less the fee structure than it is the cost of attorneys' fees and patent agent fees. Those are far, far higher. I think our patent fees right now for an individual or small business inventor are by far the lowest in the world.

Senator GRASSLEY. Then my original question was related to what you do to bring down costs. It seems to me we ought to be paying some attention to that. That still may not absolve our consideration of the need for the legislation.

Let me quickly go on and ask about the other bill and then I'll be done, Mr. Chairman.

You state in your testimony that allowing third parties greater participation in the reexamination process will encourage increased reliance upon that procedure. Will this cut down on court litigation, or is this just kind of an extra step for lawyers to get involved in?

Mr. LEHMAN. The intent of this—and it's an ardently held intent and wished intent—is that it will cut down on litigation, that people will be able to use this very, very streamlined, very inexpensive procedure instead of having to go out and hire lawyers and wait for litigation. That's the intent.

Senator GRASSLEY. In this committee, as my colleague knows, I've pushed as often as I can for alternative dispute resolution. Has the Patent Office considered adopting or supporting a system of ADR concerning challenges to the validity of a patent?

Mr. LEHMAN. Well, to the extent we have, Senator, it's the reexamination procedure. In fact, when this was put into effect in

1980—and I was a part of that at the time; I was working over on the House side as counsel to the House committee—that was very, very much what our intention was here, exactly, to have some alternate dispute resolution procedure.

What we found out in the last 14 years, though, is that it hasn't been as attractive to people as we might have hoped it would have been, for some very good reasons. So we are opening it up a little bit more, still keeping it simple, still hopefully keeping it very unlitigative, but at the same time making it more attractive so that we will get more people who are able to enjoy the benefits of the system.

Senator GRASSLEY. And to keep it out of the courts?

Mr. LEHMAN. That's correct.

Senator GRASSLEY. Are you considering any sort of—I would call it a "penalty;" that may not be the legal word for people who don't accept the judgment of ADR and then go to court, if they don't get a better deal out of the court process? In other words it seems to me that if you don't have some incentive in ADR, once it's used, to abide by it, then you are going to just have it be an unnecessary first step to getting into the courts.

Mr. LEHMAN. Senator, first of all, it's not a first step to getting into the courts because when a third party—that is, someone other than the patentee—brings evidence to us of prior art and they say, "Reexamine the patent in light of this prior art; we think you'll find that the patent is invalid," when that third party does that, they agree that the only judicial review that they will have is to the Court of Appeals for the Federal Circuit. So they are taking away a lot of the normal rights that they would already have.

Senator GRASSLEY. OK; so you already do have some cutting-short of the judicial process?

Mr. LEHMAN. That's correct.

Senator GRASSLEY. OK.

Mr. LEHMAN. And it would be virtually impossible, I think, to build in more disincentives to use litigation because of the problem of standing here. Normally, litigation arises when this third party who would bring the examination request is sued by the patentee in litigation. So normally the people who were expecting to make use of this expanded reexamination procedure really have no control over whether they are sued or not. This, in fact, enables them to come to us and develop a defense that is going to immunize them from the people who would really sue them and clog up the courts and build up the big litigation costs.

Senator GRASSLEY. Thank you, Mr. Chairman.

Senator DECONCINI. Thank you, Senator Grassley.

Commissioner, thank you. As usual, you are very helpful to us here and we will do our best to move these bills along. We appreciate your testimony today.

Mr. LEHMAN. Thank you very much.

Senator DECONCINI. Our panel has four representatives: Mr. William Budinger, president of Rodel, Inc.; Donald Banner, the former Commissioner of the Patent and Trademark Office, representing the Intellectual Property Section of the American Bar Association; Roger Smith, Intellectual Property Owners, Inc.; and Gary Griswold, American Intellectual Property Law Association.

Gentlemen, if you would please come forward. I am going to ask you to each summarize your statements and ask you to do so in 5 minutes or less so that we can get some questions here.

We will start with you, Mr. Budinger. Welcome.

PANEL CONSISTING OF WILLIAM D. BUDINGER, PRESIDENT OF RODEL INC.; DONALD BANNER, THE FORMER COMMISSIONER OF THE PATENT AND TRADEMARK OFFICE, REPRESENTING THE INTELLECTUAL PROPERTY SECTION OF THE AMERICAN BAR ASSOCIATION; ROGER SMITH, INTELLECTUAL PROPERTY OWNERS, INC.; AND GARY GRISWOLD, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

STATEMENT OF WILLIAM D. BUDINGER

Mr. BUDINGER. Thank you, Mr. Chairman, members of the committee. My name is Bill Budinger. I think I am one of those two guys in the garage that we heard about already today.

I am both an inventor and a founder of a small manufacturing company. As an inventor I hold several dozen patents in the U.S. and overseas. I derive significant income from licensing those patents, so I am very interested in a strong and solid patent system.

My company, Rodel, got its start in my bathtub 25 years or so ago, trying to make some of those inventions. The company grew by its own resources and today we employ about 300 people in the United States and another 100 around the world. Our primary products are polishing pads and slurries that are used in the electronics industry and in the manufacture of microchips and LCD screens.

I am particularly proud, because as our electronics market has moved offshore in the 1980s, we were forced to become a global company, unusual for a company of our small size. Today we sell most of our products overseas or to foreign-owned companies, and our competitors have names like Dai Ichi, Samsung, Fujibo, Mitsubishi, and Marubeni. That is a very difficult environment for a small American company to work in, and we have recently discovered a new challenge in that environment that occurs in our intellectual property law, which is what brings me here today. I would like to relate to you a specific case example of what has occurred for us, and which in fact perhaps addresses some of Mr. Grassley's earlier questions.

For years our company has been manufacturing one of its principal products by using a process involving heat. When we first began making the product almost 20 years ago it did not seem to us that it was a patentable process. In any event, we understood American patent law to be such that when one has been commercially using a process for more than a year, it is no longer patentable; at least, that's what we thought. What we did not realize was that the law is unclear as to whether or not that process would be patentable by somebody else. It cannot be patented by us, but we didn't know that it was possible that someone else could still patent it.

Last year, we learned that a company which had been copying our product had filed for patents in their home country, and had received U.S. counterpart patents in the United States, and these

patents specifically described our process, and in particular the use of heat. Frankly, we didn't think much about that when we first learned of the patents because we thought we were protected from our earlier use. In a conversation I had with our patent counsel one day, just kind of casually I mentioned that thing and he said, "Whoa, Bill, you better let me take another look at it." He did, and he said, "You may have a problem. It is possible that because your process is not published anywhere, that this patent could be valid." Frankly, I was so astonished by that, I checked with a different patent counsel and got the same response.

So what we have learned is that a foreign company was able to get a patent on our process, one that we had been using for years, and that it's possible that that patent could be valid and it's possible that that patent could be enforced and could stop us from doing what we've been doing for 20 years. If that were to happen, that seems like a gross miscarriage of justice of what we understood about the protection offered by American patent law.

Kind of like Rodel, I think many small U.S. firms are not aware of the problem, just as we were not. They don't realize that U.S. inventors believe that if they were first, or if they have been using the technology for more than a year, that they are safe. The fact is that they're not safe.

This bill, S. 2272, is an attempt to create a prior user right in the same manner that our foreign competitors have, because one of the other things we learned from our patent counsel was that even though we run the risk of having their patents enforced against us, they don't have the same situation in their country.

I would like to say just one more thing in closing. The question has come up whether this is only referring to the 1 percent of the inventions that don't get patented. From a small business perspective I would have to say that most inventions do not get patented. Most inventions are little things; they are not great big things like the light bulb or the transistor. They're the little, tiny things that go into making a commercial product.

Senator GRASSLEY. Is that statement in regard to my question that I asked the Commissioner?

Mr. BUDINGER. Yes, sir.

Senator GRASSLEY. Thank you very much.

Mr. BUDINGER. And these little things, if we were forced to patent them, would cost us a fortune because if we're global, we can't only patent them in the United States; we have to patent them all over the world. Once we get a U.S. patent, all our foreign competitors can read it. If we don't have patents in their country, they would be free to use our technology. The cost of patenting overseas is immense. To get patent coverage for just one invention in Europe costs \$88,000 in application and maintenance fees.

Thank you very much.

[The prepared statement of William D. Budinger follows:]

PREPARED STATEMENT OF WILLIAM D. BUDINGER

SUMMARY OF STATEMENT

1. Small American enterprises that develop proprietary manufacturing technology run a real risk of losing their right to continue using that technology.

2. The problem emerges when another company later acquires and patents the same technology. Existing patent law is at best unclear about the patentability of proprietary technology that has been in earlier non-public use by others. Many patent attorneys believe that valid patents may be obtained on such old technology, provided it is not old to the patentee and not publicly known.

3. Such patents could then be enforced against the original users of the technology.

4. The existing possible defenses to this problem are impractical or undesirable:

a. Publish everything—gives competitors free access to all the enterprise's hard earned technology.

b. Patent everything—must be world-wide to be effective. Would be financially impossible for most small enterprises.

c. Move manufacturing offshore, out of harm's way.

5. Our foreign trading partners have already solved this problem by granting "prior user rights" to their domestic manufacturing.

6. The U.S. needs to grant this same protection to enterprises that are manufacturing in the United States.

7. The Prior User Rights Act of 1994 (S. 2272) provides such protection in a manner designed to protect the rights of both a prior user and a legitimate inventor-patentee.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE: My name is Bill Budinger. I am both an inventor and the founder of a small manufacturing company. As an inventor I hold several dozen patents in the U.S. and overseas. I derive significant income from licensing some of those patents. I am very interested in maintaining a strong patent system and strong patents.

My company, Rodel, got its start in my bathtub 25 years ago trying to make one of those inventions. The company grew by its own resources and today employs about 300 people in the U.S., another 100 around the world. Our primary products are polishing pads and slurries that are used by the electronics industry in the manufacture of micro-chips, LCD screens, and memory storage devices.

I am here today partly as a result of our effort to supply our markets as those markets moved overseas. In 1979, 90 percent of our customers were American. In the 1980's, most of these customers went bankrupt, got bought out, or moved offshore. Survival for us meant becoming global and learning how to compete with firms like Dai Ichi, Fujibo, Fujimi, Marubeni and Mitsubishi. It meant learning how to make products with quality that was better than the best in Asia. It meant trying to persuade a foreign customer to buy American—while our foreign competitors waited in his lobby. My company exists today because we were successful. Today, the majority of our business is supplying products to foreign owned customers. We have a huge export surplus. In fact, I am pleased to report that our American-made products are preferred in Asia even over locally made products—so much so that in our specialty we sell more in Asia than all of our Asian competitors combined. It is not possible to buy an electronic product made anywhere in the world that was not made with at least one of our products.

The issue that brings me here today is concern about the vulnerability of our company and many other small American enterprises in the intellectual property area.

Partly because of our success in Asia, our Asian competitors have shown a keen interest in our technology. About a year ago we were astonished to learn that it was possible for them to get a U.S. patent on part of our manufacturing process and then stop us from making what we had been making for years.

Here is what happened:

For years our company has been manufacturing one of its principal products by using a process involving heat. When we first began making the product almost 20 years ago, it did not occur to us that something as simple as a particular heating process might be patentable. In any event, we understood American patent law to say that after one has been commercially using a process for more than one year, it can no longer be patented. What we did not realize was that the law is not clear about whether everyone else also loses the right to patent the process. Last year we learned that a company which has not previously made a product using such a process may not be similarly barred from filing for a patent. We learned because it happened. A few years ago, a foreign competitor filed a patent in their own country claiming the use of heat. They then filed for and received a U.S. counterpart patent. We now find ourselves facing a new U.S. patent

on a process that we developed 20 years ago and have been using ever since to make products in our plant. The foreign company that holds the new patent is a huge corporation. It dwarfs our small enterprise. If they choose to enforce their patent, they have the financial horsepower to overwhelm us. There is no clear U.S. law that protects us. Our attorneys tell us that under existing U.S. law, the holder of a valid patent on our process would probably be able to stop our production.

Our efforts to compete globally have stirred up an intense interest by some foreign firms in our technology and the U.S. patent system. We were surprised to learn that they could use patents in a way we never expected. Indeed, most small U.S. firms do not yet compete globally (or even with large multi-national firms) and are not yet aware of the problem. As was our case, most U.S. inventors mistakenly believe that if they were first or have been using technology for more than a year, it cannot be successfully patented by another. Most of us are not aware that our use of technology is not necessarily a bar to some one else coming along much later and getting a patent on it.

The situation is particularly acute for smaller enterprises. Most manufacturers, especially small manufacturers, do not, and indeed cannot, patent all their technology. Patents are expensive and their prosecution takes precious time away from management or new innovation. Inventors and small companies generally try to patent only those inventions that they intend to sell on the open market. The hundreds or thousands of little innovations that are incorporated in their tooling, processing, or intermediate materials are rarely patented. If small companies were required to patent everything they intend to continue using, they would have to submit every piece of their technology for review by patent attorneys. Such reviews (and the resulting defensive patents) would be prohibitively expensive.

The growing reach of global competition means we cannot ignore this problem. Small enterprises are the spawning grounds for our economic future. More and more, the survival of America's small enterprises will depend upon their global competitiveness. This issue strikes at the heart of that competitiveness—the cost and effectiveness of protecting hard earned technology. None of our major foreign competitors operate under the disadvantage we have. To protect their technology, our foreign competitors need only keep it confidential. Their laws assure them the right of continued use even if someone later comes along and gets a patent. On the other hand, under American law, in order to be assured the right of continued use, we *must* publish our technology either openly or in the form of patents. But even if we could afford to file for U.S. patents on everything we do, filing creates a new danger. Since our foreign competitors are free to read U.S. patents (and soon even our applications may be published), they gain immediate access to our technology. If we are required to defensively patent all our processes, the only way we can globally protect ourselves is to file counterpart patents all over the world. The burden is huge. The cost of obtaining full European patent coverage for just one invention is \$88,000 in application and maintenance fees alone. That doesn't include Asia, it doesn't include the costs of translation or legal fees, and it doesn't include any of the costs of enforcement. In the real world, defensive patenting is just not a viable option for small U.S. companies operating in a global marketplace. We must be able to develop technology and keep it confidential without fear that it can be taken away from us.

America's major trading partners have already addressed this issue and protected themselves. They can safely keep their technology confidential because they have added "prior user rights" to their patent laws. Under a prior user right, if a patent issues and someone else can prove that he has been using the technology since before the priority date, the law allows continuation of that prior use. As things stand now, if we get a patent on their technology, their prior user right allows them to keep operating. If they get a patent on our technology, they can shut us down.

The problem can be easily fixed by incorporating prior user rights into American patent law. Senate bill S. 2272 does just that. S. 2272 is a bill that has been crafted to take into account the concerns of the major parties at interest. It will grant to American enterprise a clearly defined and limited prior user right. It gives American enterprise the same protection for intellectual property that our trading partners have already granted to their own industry.

Thank you. I look forward to answering your questions.

Senator DECONCINI. Mr. Budinger, thank you.

Mr. Banner, welcome to the committee again. We're always pleased to have you, Commissioner.

STATEMENT OF DONALD BANNER

Mr. BANNER. Thank you, Mr. Chairman, Mr. Grassley. I am very pleased to be here.

I am very grateful to be here. I didn't know I was going to be here until about 17 hours ago. I am pleased to be here representing the American Bar Association.

Senator DECONCINI. I'm kind of sorry you're here. I was disappointed with the section in New Orleans. I'm always glad to have you here, but—[Laughter.]

Mr. BANNER. I'm sure you say that in just a general sense, not personally.

Senator DECONCINI. Not personally. [Laughter.]

Mr. BANNER. We have 352,000 members in the American Bar Association and I am happy to be representing them here today, in addition to the section of 12,000 in intellectual property.

My statement, however, in support of the American Bar Association is limited to the prior user rights bill, S. 2272. If I may, I would like to submit a formal statement at a later date.

I also have some comments on the reexamination bill if you would like to hear them, but they would be personal recommendations rather than anything else.

It would appear from what's been said here already that everybody in the world is in favor of this. That's simply not true. It is simply not true that all this came up recently because of small business. This very precise issue was before the American Bar Association in 1968, precisely this issue, and it was at that time that the American Bar Association took a position and said that this was bad for the United States of America. If it's the greatest thing since the plaid cummerbund, why are all of the inventors' groups—at least that I know about—against it? Why are universities against it, in addition to the ABA?

I have some thoughts on this subject. We heard about the royalty free license to people who are first inventors; that's not true. This has nothing to do with being the first inventory. This is to anyone who fits into that category, anyone, prior to the filing date of the patent. It's not limited to the first inventor; in fact, it's not even limited to an inventor. The person who would get the prior user right could have bought it or licensed it from somebody else—for example, a foreign competitor.

It applies even though the patentee had conceived his invention before the user started to use it, and diligently worked to reduce his work to practice. That's grossly unfair. We work on a conception-diligence-commercial value, and then file system in this country, and everybody knows that.

There are practical reasons why we should oppose this, and logical reasons. For practical reasons, the prior user right would destroy the value of the patent to patent licensors; for example, if you were a patent owner and you found out that General Electric had a royalty-free nonexclusive license, what do you think your royalty rate would be when you went to Westinghouse? I'll tell you, it would be zero.

If the public use defense is asserted, it is very possible that this poor individual, this patent owner, would have to go to court to prove it. Yes, it is true that the patent user right assertor would

have to have the burden, but he still could have to make the man go to court to do it. That doesn't make any sense.

Now, let us be sure about one thing. The prior user persons can protect themselves. Very simply, if they don't suppress or conceal whatever it is that they're doing, then they have complete protection as prior art under section 102(g). They could file a patent; they could publish a technical paper, for example, that need not identify the company; they could give plant tours; they could take their chances like other people have done over the years that somebody, A, might get a later patent, and B, assert it against him because he discovered the secret use, which can't be very often because there are very few cases, if any, on this subject. There are no numbers. It isn't a question that little things can't be patented; we're talking about things that are patentable being used by somebody, and then have somebody assert that against them.

Why protect the secret user? He does nothing to increase the technical data base available to the country, does not promote progress of the useful arts. S. 2272, we respectfully urge, should not be enacted.

With respect to S. 2341, my statement—once again, personal in nature—the section on intellectual property law has passed resolutions of various kinds which support almost every provision in that bill. The only provision that is not supported by resolutions is the provision with respect to having the third party given a right to appeal. That's the only difference. There was such a resolution before the section which was defeated, but I can't remember, unfortunately, why it was defeated because it happened in 1985.

Thank you, Senator.

Senator DECONCINI. Mr. Banner, thank you very much.

Mr. Smith?

STATEMENT OF ROGER S. SMITH

Mr. SMITH. Thank you, Mr. Chairman. My name is Roger Smith and I represent Intellectual Property Owners this morning. I am currently the president of IPO; I am also assistant general counsel for IBM for intellectual property affairs.

As you know, IPO is a nonprofit association that represents companies and individuals who own patents, copyrights, trademarks, and trade secrets. IPO members are responsible for a substantial portion of the private research and development that is currently performed in the U.S.

We strongly support S. 2272. I am not able to speak on behalf of IPO with respect to the reexamination bill, but with your indulgence I will make a brief comment on behalf of my company after I complete this.

We in IPO believe that S. 2272 is important legislation. By clarifying the rights of prior users in the U.S., this bill will greatly help provide certainty about rights in technology that is sorely needed today.

S. 2272 provides the U.S. manufacturer a personal defense against infringement in limited circumstances that have already been described. But the principal area of interest, of course, is with respect to trade secrets. It is not clear under existing law that a prior user whose use does not create a patent-defeating public dis-

closure can continue that use in the face of a later-filed patent. Clarification of the point has been needed for years, but we know of no case yet that deals squarely with it. In our view, the statutory right provided in S. 2272 is the correct solution.

S. 2272 is a carefully crafted bill that protects the interests of both patent owners and trade secret owners. Sometimes people—including my good friend, Mr. Banner—have a knee-jerk response that protecting prior users of trade secrets will exalt secrecy over disclosure and defeat the bargain element or the bargain theory of the patent system. We believe that trade secret use of technology cannot be dismissed as necessarily less beneficial to society than publicly-disclosed use. Many important technological achievements, notably processes, can only be effectively exploited through secret use. Processes are naturally practiced away from the public view in most cases; and this, by the way, is not only true of inventors' processes, it is true of infringers' processes. Patents covering processes, consequently, are very difficult to enforce, so they do not provide meaningful protection in many cases.

A U.S. manufacturer should not, in our view, be expected to disclose proprietary technology to the world, including his foreign competitors, through the vehicle of a hard-to-enforce U.S. patent in order to assure his continued personal right to use that technology in this country.

We believe that if S. 2272 is enacted, the incentive to patent substantial and protectable and enforceable inventions will not be changed. Inventors will not feel compelled to file patent applications on minor inventions that they make during routine product development, as they would today, as they are today. On the other hand, the incentive to obtain patent protection where it can be effectively exploited by the right to exclude or to reap the royalty reward that is provided by the patent system will continue to far outweigh the incentive to maintain secrecy. After all, trade secret protection does not prevent other parties from independently creating an invention and from using it. Moreover, when the secret becomes known, its value is gone. This is an inherently risky protective mechanism and not one that we would expect people to use where the risk cannot be tolerated.

The prior user right in the United States doesn't insulate a manufacturer against foreign patents on foreign soil.

Nonmanufacturing patent owners have expressed fears in the past that prior user rights might undercut licensing value of patents, but we don't believe that there is substantial reason for concern, particularly if the rights are limited, as is provided in S. 2272. Experience abroad suggests that prior user conflicts rarely occur. But it isn't the frequency of occurrence, it's the possibility of occurrence that we need protection against. This is a "bet your company" situation if you have geared up to manufacture something important, and you discover after you've spent a great deal of time, money and effort, that your manufacturing rights have been cut off by a patent owned by a third party.

Mr. Chairman, we think that this is a good bill and we think that it is helpful to the U.S. We urge that it be passed.

With respect to the reexamination bill, I would just like to say on behalf of IBM that we enthusiastically support that bill. We

think it is good legislation. We think there is a great need for more inter partes activity in reexamination to prevent the basic unfairness that now exists.

Thank you.

[The prepared statement of Roger S. Smith follows:]

PREPARED STATEMENT OF ROGER S. SMITH

SUMMARY OF STATEMENT

- PO strongly supports S. 2272, the "Patent Prior User Rights Act of 1994.
- S. 2272 is a carefully crafted bill that clarifies existing law and protects the interests of both trade secret owners and patent owners. Secret use of technology cannot be dismissed as necessarily less beneficial to society than publicly disclosed use.
- Particularly in the case of process inventions, for which trade secret protection is often a better alternative than patenting, the prior user right of S. 2272 will improve the climate for innovation by enabling the first domestic commercial user to protect its investment in research, development and commercialization at a lower cost.
- Most of our major trading partners have prior user rights similar to those proposed in S. 2272, and those systems of prior user rights work well.
- The bill will benefit large and small U.S. manufacturing concerns without undercutting the licensing value of patents.
- The bill provides definitions and limitations that will prevent any abuses of the prior user right.
- The competitive pressures on U.S. businesses are such that Congress should move ahead with S. 2272 separately from the other patent system reforms now on the drawing board.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE: My name is Roger S. Smith. I appreciate the opportunity to testify on behalf of Intellectual Property Owners (IPO). I am Assistant General Counsel for Intellectual Property at IBM Corporation and the current president of IPO. IPO is a non-profit association that represents companies and individuals who own patents, trademarks, copyrights, and trade secrets. IPO members are responsible for a substantial portion of the private research and development performed in the United States.

IPO strongly supports S. 2272, the Patent Prior User Rights Act of 1994. Although IPO also is very interested in the topic of patent reexamination, the association has not yet developed a position on S. 2341, the Patent Reexamination Reform Act of 1994. With your permission I will offer some brief personal comments on S. 2341 at the end of my statement. IPO may wish to submit written comments on reexamination at a later date.

PRIOR USER RIGHTS IN GENERAL

We believe the Patent Prior User Rights Act of 1994 is important legislation that will materially improve the functioning of United States patent and trade secret laws. The bill strikes a balance between the rights of patent owners and the rights of prior users of patented inventions, who include trade secret owners. By clarifying the rights of prior users in the United States, the bill if enacted will provide greatly needed certainty about rights in technology and reduce the expense of protecting intellectual property.

In essence, S. 2272 provides that a U.S. manufacturer will not be liable for infringement of a patent owned by another party if the manufacturer commercially uses the patented invention, or makes effective and serious preparation to use it, before the other party files for a patent. It is not clear that existing law is different from this, but neither is it clear under existing law that a prior user whose use does not create a public disclosure can continue that use in the face of a later filed patent.

Clarification of the point has been needed for years, but we know of no case that deals squarely with it. Globalization of the economy and the high cost of patent litigation have added urgency to the need for clarification. The statutory right in S. 2272 to continue to use technology in the face of later filed patent applications is the best solution.

PROTECTING TRADE SECRET OWNERS

S. 2272 is a carefully crafted bill that protects the interests of patent owners and trade secret owners. Under current law, prior users of trade secrets and other technology that, by its nature, is practiced away from the public's view cannot be confident that another party will not patent the technology and sue them for patent infringement. Sometimes people have a knee jerk response that protecting prior users of trade secrets will exalt secrecy over the public disclosure of inventions that is encouraged by the patent system, and that the bargain theory of the patent right will be frustrated.

We believe secret use of technology cannot be dismissed as *necessarily* less beneficial to society than publicly disclosed use. Many important technological achievements—notably processes—can only be effectively exploited through secret use. Processes are naturally practiced away from the public's view in most cases. Patents covering them consequently are very difficult to enforce, so process patents often do not provide meaningful protection.

The Supreme Court of the United States in its landmark 1974 opinion in *Kewanee Oil Co.* articulated how patent law and trade secret law both encourage innovation. Patent law, the court explained, promotes innovation by offering a right to exclude competitors for a limited period of time and inducing public disclosure of patented inventions. The court recognized, however, that trade secret protection for inventions that could have been patented does not conflict with the patent policy of public disclosure of technology. The court said:

Trade secret law and patent law have co-existed in this country for over 100 years. Each has its particular role to play, and the operation of one does not take away from the need of the other * * *

A U.S. manufacturer should not be expected to disclose its proprietary processes to the world, including foreign competitors, through the vehicle of hard-to-enforce patents in order to assure the continued right to use them in this country.

In addition to processes, there is a need to protect other innovations in which significant investments are made during the period that they are under development and before public use assures their protection against subsequent inventors. S. 2272 accomplishes this in a fair way by protecting effective and serious preparation for use. This obviates the need for a manufacturer to incur the expense of patenting every minor improvement or publishing a disclosure of every minor improvement in order to defeat the right of others to obtain a patent.

If S. 2272 is enacted, the incentive to patent substantial, protectible inventions will be unchanged. Inventors may not feel compelled to file as many patent applications on minor inventions, such as improvements made during routine product development, as they would if a prior user right were not assured. On the other hand, the incentive to obtain patent protection where it can be effectively exploited by the rights to exclude or to reap royalties will continue to far outweigh the incentive to maintain secrecy. Trade secret protection does not prevent other parties from independently creating an invention and using it in the United States. A prior user right in the United States does not insulate a manufacturer from exclusion from all foreign markets by foreign patents filed later by other parties.

PRIOR USER RIGHTS ABROAD

Prior user rights provisions are common in foreign patent systems. A study of 46 countries by the World Intellectual Property Organization in Geneva in 1988 reveals that the vast majority have a right in their patent laws to use a patented invention based on possession, use, or preparation for use before the filing date or priority date. In certain countries—for example, Belgium and France—prior user rights are too broad because a prior user right is recognized for a party who merely possesses knowledge of the invention earlier than the patent filing date. Such overbroad prior user rights need to be reined in through international negotiations because they diminish the value of exclusive patent rights.

Most of our major trading partners, however, have prior user rights similar to those proposed in S. 2272, and those systems work well. Litigation involving enforcement of prior user rights is rare in other countries, and such litigation will not become significant in the United States. S. 2272, consistent with the approach used in other countries, limits the rights to those parties who have commercially used or made effective and serious preparation for commercial use in this country. Foreign countries base their prior user rights on the earlier of the domestic patent application filing date or Paris Convention priority date, as does S. 2272. Other countries do not give patent owners compensation for use of patents by prior users, who

in many cases are the first inventor and advance the public interest by manufacturing. S. 2272 is correct in adopting that policy too.

PROVISIONS IN S. 2272

The definitions and the qualifications on prior user rights proposed in S. 2272 are satisfactory.

For example, the term "commercially used" is defined to include the use of processes, equipment, tooling, and intermediate materials in the design, testing, or production of commercial products. The definition makes clear that commercial use includes use that is maintained as a trade secret. "Effective and serious preparation" has to involve reduction to practice of the invention plus serious plans for, and a significant investment in, commercial use.

Preparations for commercial use that are substantial and material should give rise to prior user rights, provided they represent activity toward actual commercialization as opposed to mere plans or preliminary efforts toward subsequent activity. We endorse the following factors recommended by the 1992 Advisory Commission on Patent Law Reform, among others, for determining whether effective and serious preparation for use exists:

1. The costs incurred by the prior user by the time of filing of the patent, as well as the relation of those costs to the total cost for commercialization of the subject matter of the prior user rights;
2. The amount of time required for the prior user to complete the preparation for commercial use after the filing date, and the proportion of that time in relation to the total time necessary to fully prepare for the prior use;
3. The complexity of preparation for practicing the claimed prior use; and
4. The diligence of the prior user in preparations for the prior use.

The bill provides that subsequent variations and improvements on an invention which had been used prior to the patent owner's effective filing date do not infringe the patent only if they do not cause infringement of additional claims of the patent. The right created by prior use or preparation should be limited to continuation of the kind of activity which gives rise to the right. In the case of processes, this should limit the right to a continuation of use of an identified process, but should not limit the products produced or affected by the process.

The prior user should be able to expand the prior use to meet market demands, rather than being restricted to the pre-filing volume of use. Prior users should not be restricted to a particular geographical area within the borders of the United States, as entities commonly conduct development and commercialization activities in different sites throughout the United States.

The bill lists several desirable qualifications on rights based on prior use:

- (1) Prior user rights are personal and cannot be transferred except in connection with transfer of the entire business or enterprise which the rights relate;
- (2) Prior user rights are not available if the prior use was based on information derived from the patent owner or parties in privity with the patent owner, or the prior user's activity was abandoned;
- (3) Prior user rights do not cover all claimed subject matter of the patent, but only that subject matter that was commercially used or for which there was serious and effective preparation in the United States before the filing date.

These limitations are needed to prevent abuses of the prior user right that would improperly diminish the value of the patent against which the right might be asserted.

We understand the prior user rights of S. 2272 to be legal rather than equitable rights. A legal prior user right is important in the interest of clarifying the metes and bounds of the right. Under S. 2272 a court would not have the authority to assess reasonable royalties in favor of the patent owner for use by the prior user, nor to expand or contract the prior user right in the interest of equity. The prior user right would be an absolute defense to infringement once the elements of the right were proven by a sufficient showing of prior use. Rigidly enforced qualifications for establishing the prior user right, including the requirements of independent innovation and actual reduction to practice, will ensure that the right will be invoked infrequently, and if invoked, sustained only where truly merited.

If the court were given authority to assign royalties for prior use and to expand or diminish the prior user right, it would complicate the right and create uncer-

tainty that could lead to unnecessary litigation. If faced with the possibility of paying royalties in the domestic market, manufacturers might build plants overseas where prior users do not face the threat of being forced to pay compensation to patent owners.

CONCLUSION

S. 2272 will benefit large and small U.S. manufacturing concerns. Today businesses large and small are finding that the cost is prohibitive to protect all inventions, including minor improvements, with worldwide patents. Particularly in the case of process inventions, for which trade secret protection is a practical and often the best alternative, an assured prior user right will improve the climate for innovation by enabling the first domestic commercial user to protect its investment in research, development, and commercialization at a lower cost.

Non-manufacturing patent owners have expressed fears in the past that prior user rights might undercut the licensing value of patents, but we do not believe there is reason for concern, particularly if the rights are limited as provided in S. 2272. Experience abroad suggests that prior user conflicts rarely occur, so most patent owners will not encounter them. That does not mean that prior user rights are unimportant to manufacturers. It is the possibility—not the frequency—of a complete prohibition of continued use, that pushes U.S. manufacturers toward unnecessary patenting or disadvantageous publishing of manufacturing technology.

The business community cannot afford to wait for clarification of the rights of prior trade secret users through case by case judicial interpretation of the existing patent code, an uncertain prospect. The competitive pressures on U.S. businesses are such that Congress should enact S. 2272 separately from the other patent system reforms now on the drawing board.

S. 2272 is a carefully thought out bill that balances patent rights and prior user rights in a way that will strengthen the technological competitiveness of U.S. industry.

I will be pleased to answer any questions.

Senator DECONCINI. Thank you, Mr. Smith.

Mr. Griswold?

STATEMENT OF GARY GRISWOLD

Mr. GRISWOLD. Good morning, Mr. Chairman. I am Gary Griswold. I am representing the AIPLA. I am a board member of the AIPLA; as you know, it's an 8,500-member national bar association of intellectual property lawyers of all types and sizes. I am personally the Chief Intellectual Property Counsel of 3M, St. Paul, MN; 3M is one of the top 10 U.S. companies in obtaining U.S. patents, so we are a strong believer in the patent system. I would like to thank you, Senator DeConcini, for your leadership over many years in the patent law area. I think the introduction of these two bills is a good indicator of that leadership.

The AIPLA supports both S. 2341 and S. 2272. I am going to change the pace here a little bit, although I would like to make a few comments on prior user rights since I have a bit of interest there.

I will first comment on reexamination. The present law, which was enacted in 1980, relevant to patent reexamination was brought into being to try to reduce the cost in dealing with issues relative to the validity of patents that were raised by newly-discovered patents or printed materials. The present system, because of the limited participation by the third party requestor, has become not so much used and respected as we would like. In fact, it appears to be too much in favor of the patentee because of the limited participation of the third party requestor.

S. 2341 deals with a lot of the concerns that have been expressed by users of the reexamination system, and possible users. AIPLA

has spent many years considering the reforms mentioned in S. 2341. They have also been adopted by the Secretary of Commerce's Advisory Commission on Patent Law Reform in 1992, and as you are well aware, are supported by the Clinton Administration.

The four key elements I would like to comment on today are, first of all, that a final decision by a district court will preclude the Patent Office from considering the same issue at a reissue proceeding. That is in the bill and is an important part of the bill. We don't want the Patent Office going back to deal with the same issue that was raised or could have been raised in a District Court.

The second issue that I would like to mention is the business of consolidating the order for reexamination and first action on the merits to expedite the process. The proposed bill, S. 2341, provides this as an alternative. We would like to see it be mandatory.

Relative to expanding third party reexamination requestor participation, AIPLA's position is that there should be two opportunities, one after the first action and the other at the conclusion of the examination where claims have been determined to be allowable. This has strong support in the AIPLA. The bill allows more participation than the AIPLA proposal. We would like to still see it at two opportunities.

The last point I would like to make on reexamination is the third party requestor being able to appeal. They can appeal to the PTO Board of Appeals, and also to the CAFC. The bill requires that both the third party requestor and patentee now only appeal to the CAFC, not to the district court. We think that's fine, and if the requestor waives the right to raise the same issues or issue that could have been raised in a different forum, if they participate in CAFC, we believe that is fine, as well.

Overall, we believe this is a good bill and support it. There are a few technical amendments that we would like to make comments on, and we will submit those later.

Mr. GRISWOLD. Turning to prior user rights, I would like to make a couple of comments.

One, there are many process inventions that, even if you get a patent on them, you cannot police the patent because you can't tell whether or not the process is being practiced by the product. Therefore the bargain theory of patents, where you trade a disclosure for the patent right, is just not there for the applicant. We therefore believe that in those cases it is not good for the U.S. to push its inventors to file patent applications. This basically provides a disclosure of our technology to people who would use it, to our disinterest — we would be interested, but to our disfavor—without paying any compensation. It's a "free gift" of that technology around the world.

Secondly, when you have 45 percent of U.S. patents being foreign-owned, then what we're talking about here is a situation where if you are in the U.S. as a manufacturer, you do not have a right to stop a foreign-owned patent owner from obtaining an injunction against your operations. We don't think that's fair when in that country—for example, in Japan we may have an American-owned patent that our prior user right would be applicable to in Japan, and we could not stop a manufacturer in Japan. So we

think that equity requires that U.S. patent owners be treated just the same as those in other countries.

Is this a rare event? The evidence is that prior user rights do come up rarely in other countries; but as the comment that is made in our paper, if you are struck by lightning, it doesn't help to say that it's a rare event.

Those are my comments.

[The prepared statement of Gary L. Griswold follows:]

PREPARED STATEMENT OF GARY L. GRISWOLD

STATEMENT SUMMARY

- AIPLA supports the "Patent Prior User Rights Act of 1994" (S. 2272).

American business, and in particular small business, should have the protection of a prior user right. Foreign based business operations already have this protection.

- AIPLA supports the "Patent Reexamination Reform Act of 1994" (S. 2341).

The U.S. Patent and Trademark Office and the AIPLA agree that the reexamination procedure has not been as beneficial to inventors as had been envisioned when it was initiated in 1981.

S. 2341 contains the two key reforms of reexamination supported by AIPLA:

Increased participation by third party challengers to the validity of the patent, and

A prohibition of allowing the USPTO to reexamine a patent already found valid by a U.S. district court based on the same challenge.

The American Intellectual Property Law Association (AIPLA) is an 8,500 member national bar association whose membership consists primarily of lawyers in private and corporate practice, in government service, and in the academic community. As such, AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, unfair competition, and other fields of law affecting intellectual property.

I appreciate the opportunity to appear today to offer the position of the AIPLA on the Patent Reexamination Reform Act of 1994 (S. 2341) and the Patent Prior User Rights Act of 1994 (S. 2272).

The AIPLA strongly supports the enactment of both S. 2341 and S. 2272. We commend you, Mr. Chairman, for introducing these bills and for your continued efforts to improve operation of the United States patent system.

A PRIOR USER RIGHT

The AIPLA has consistently supported a strong patent system. Our members know from long experience how effective it is and has been in protecting the work of American inventors and promoting the development of technology. For the great majority of inventions, legal protection is only possible by obtaining a patent. Some inventions, primarily manufacturing processes and equipment, can either be protected as trade secrets under state law or patented. Because trade secret laws generally provide limited protection in comparison to patent laws, only infrequently would trade secret protection be the approach of choice if patent protection was available.

One example is when the "bargain theory" of patents contemplated by the U.S. Constitution (Art. 4) does not hold. The theory is that it will benefit the development of technology if inventions are disclosed by inventors to the public. In order to induce inventors to make disclosures, a period of exclusivity through a patent is granted to the inventor. If the inventor cannot determine if his patent is infringed because the patented product sold does not disclose the process or equipment used to manufacture it, the inventor's side of the bargain disappears.

Additionally, the current reality is that it is not feasible or even possible to attempt to patent every piece of technology which may be patentable. The cost of seeking and obtaining patent protection in the U.S. is high. The cost of worldwide patenting has become so expensive that even large U.S. companies must carefully prioritize which inventions to fully protect. Many small businesses are totally priced

out of patenting in foreign countries, or, at best, limited to protecting their most important inventions.

U.S. manufacturers who invest in developing new technology are facing difficult decisions which impact on their interests, and the U.S. public interest as well. In the case of most technology, obtaining a U.S. patent is essential to protect commercial exploitation of the patented invention in the U.S. market. However, a concomitant failure to patent in foreign countries constitutes a free gift of the technology through the U.S. patent's disclosure to those who would make, use, or sell outside of the U.S.

Industrial process technology presents an even more difficult dilemma. Identifying a competitors use of such a patented process may be extremely difficult in the U.S., and impossible in foreign countries. Even if U.S. patenting is economically possible and accomplished, if foreign patent procurement and enforcement is not possible, teaching foreign competitors manufacturing processes by U.S. patent disclosures has significant potential risk to the U.S. patentee in the U.S. market as well as foreign markets. Products made by the U.S. patented process and imported into the U.S. to compete with the U.S. inventor may be impossible to identify and stop.

Therefore, for these and other practical reasons, many U.S. companies are being forced to choose to keep as trade secrets, or at least not patent, industrial process technology. This creates the possibility that a second later inventor may obtain a U.S. patent on technology already being commercially used, but not publicly disclosed. This, in turn, provides the legal threat that a court injunction will shut down an ongoing venture based on an earlier identical invention by a businessman, or an invention obtained from a third party inventor by the businessman, and used *before* the patentee filed an application. This situation, albeit infrequent, is addressed by the prior user right.

Foreign inventors are faced with these same practical problems in protecting inventions as are American inventors. The crucial difference is that virtually all industrialized countries¹ protect home-based business with a prior user right. An American patentee in Japan, for example, couldn't shut down a Japanese business, based on the patented invention, which existed before the American's filing date. When 45 percent of U.S. patents are foreign owned, the fact that businesses in America are not similarly protected is, of itself, a strong economic argument in support of the enactment of S. 2272. It is well recognized that prior user rights protect domestic businesses and jobs.

The AIPLA support for S. 2272 is predicated on the provisions of the bill which provide a limited scope of the right. These limitations minimize to a very significant degree any interference with the exclusive right of any patentee and in many respects are a better solution than the other possible alternative of having the patent held invalid under section 102(g).² These restrictions preclude the possibility of abuse. S. 2272 clearly does not provide any form of "reward" to a prior user, but rather only allows, under restricted circumstances, continuation of a wholly legitimate domestic commercial enterprise.

Before detailing the restrictions in S. 2272, we would point out the rare fact pattern³ which is a condition precedent to the potential creation and use of a prior user right. A patent is granted to Party B. The identical invention is commercially used by Party A *before* the filing or priority date of Party B's patent application. Party A obtained the invention either by inventing it himself or from a third party but did *not* derive it from Party B. The prior use did not create patent invalidating prior art. Party A continues to commercially use the invention patented by Party B, and that use is discovered by Party B or brought to Party's B attention by Party A. Party B accuses Party A of patent infringement or sues Party B for patent infringement. *Then, and only then*, does a prior user right, if one exists, have relevance because it then may be raised by Party A as a defense.

The right of prior use is only available to one who *prior to the asserted patent's filing or priority date* "commercially used" or made "effective and serious preparation" to use the patented invention. *Commercially used* means that the invention has been used in the United States in the design, preparation, manufacture, or testing of a product or service which is used, advertised, sold or distributed in United

¹ See Keith M. Kupferschmid, *Prior User Rights: The Inventor's Lottery Ticket*, 21 AIPLA Quarterly Journal No. 3, (1993) for analysis of the features of prior user rights in 34 countries in Europe, South America and Asia.

² The issue is not clearly decided. See *W.L. Gore & Assoc. v. Garlock, Inc.*, 721 F.2d 1540 (Fed. Cir. 1983).

³ See Lise Osterborg, *Towards a Harmonized Prior User Right Within a Common Market System*, 12 Int'l. Review Indus. Prop. & Copyright, 447, 456 (1981) detailing that in 14 years since the creation of the prior user rights in England no case reported in which it was raised as a defense, likewise in Italy during past 13 years, 4 cases in the past 20 years in France, etc.

States or foreign commerce. Commercial use does not require that the invention itself be publicly disclosed or that it be in any way publicly accessible. If a secret process or tool is part of the chain of events which ultimately results in a commercially advertised, disclosed, or sold product, that process or tool shall be deemed to have been commercially used. The test for commercial use is *not met* by persons who have merely made and commercialized a technology *similar* to the invention.

Effective and serious preparation means that a person has:

- a. Acquired the technology by himself or from a source not derived from the patentee,
- b. Reduced it to practice,
- c. Made serious plans for commercialization of the invention,
- d. Made a substantial investment, or much of the investment, in the U.S. necessary to use the invention, and
- e. Not abandoned efforts in the United States toward commercialization.

The investment necessary to meet the test for effective and serious preparation must be in equipment, testing, advertising or other preparation for commercializing the invention. Documentation and commercialization plans must be in sufficient detail to show the involvement of the claimed embodiment. Regardless of investments made elsewhere, only investment in the United States shall be considered when determining whether there has been effective and serious preparation.

The test for effective and serious preparation is not met by those persons who may have merely:

- a. conceived of the invention,
- b. developed it in a laboratory, or
- c. reduced it to practice without using it commercially or making the investment described above.

Further limitations in subsection (c) that rights granted to a prior user under this act extend only to the patented embodiment that was already in use or developed, planned, and under construction as of the filing or priority date of the patent. If, in order to practice the invention, it becomes evident that the prior user must infringe additional claims of the patent in a manner unforeseen and unplanned at the time of the filing or priority date, then the prior use or effective and serious preparation was insufficient to qualify for prior user rights.

In subsection (d) improvements to the prior use are permitted under some circumstances and not others. Permitted improvements are those that do not infringe on additional claims of the patent. Not permitted are improvements made after the patent filing or priority date that infringe additional claims, even if such improvements were made before the patent issued.

The right of prior use will allow a change in the *volume* of commercial activity. It will also allow reasonable commercialization of the activity that was clearly documented and planned under the qualifying effective and serious preparation.

Further limiting qualifications are that the rights granted under this act are not the same as a license and cannot be assigned, transferred, or licensed to others. The only exception is that the rights may follow the transfer of the entire business or enterprise to which the rights relate. If the patentee is able to show that the prior user had sufficient access to, or reasonably could have obtained sufficient information from the patentee, whether directly or indirectly to reasonably account for the prior user's *original* acquisition of the invention, then there will be a presumption that the prior user derived the invention from the patentee either directly or indirectly. The prior user may rebut this presumption by showing that the invention was obtained from a source other than the patentee.

The limit of permitted activity under the patent right is defined by the wording of the patent claim or claims under which the activity, at the time of the filing or priority date, fell. The right does *not* extend to any other claims. For example, consider a process patent containing a broad claim specifying "applying heat" and a narrow claim specifying a critical heat range between 170 and 180 degrees C. If the prior use had been heating at 160 degrees, then the right would extend to heating in general except that it would *not* extend to the critical range specified in the narrow claim, 170 to 180 degrees. If the prior use was heating to 174 degrees, then the prior use right would include the critical 170 to 180 degree range.

To qualify as prior use or serious preparation therefore, the cumulative activity must have been substantial at the time of filing. Regardless of the degree of commercial use or preparation which may have occurred at an earlier point in time, a defense of prior use may not be employed by someone who had abandoned the use prior to the filing date of the patent. Certain activities, however, are naturally periodic or cyclical. Intervals of non-use between such periodic activities, such as sea-

sonal factors or reasonable intervals between contracts, would not be considered abandonment so long as there is no positive corroborating evidence of abandonment.

And finally, the burden of proof falls on the prior user invoking the defense. The prior user must be able to present persuasive evidence that he has met the necessary tests for prior commercial use or effective and serious preparation. Claims of prior commercial use must be supported by production records, formula books, shipping records, invoices, advertising records, or the like, which when taken together, show how that the prior user had indeed been using the technology in a commercial venture in the United States, or had made qualifying effective and serious preparation therefore prior to the filing or priority date of the patent.

In sum, AIPLA supports the enactment of S. 2272 which provides a carefully limited defensive right, which will infrequently exist and even more infrequently ever be actually used. However, there is a real need to establish this right now. It is no comfort for someone who has just been struck by lightning to reflect on how infrequently such a thing happens.

REEXAMINATION

The U.S. reexamination system was developed by the Judiciary Committees during the 96th Congress, enacted into law in December, 1980, and became effective on July 1, 1981. The Senate Judiciary Committee Report (No. 96-617) accompanying the bill (S. 1679) which established reexamination explained Congressional intent:

* * * One of the greatest concerns facing innovative businesses who must rely on U.S. patents to protect their new products and discoveries is the threat that their patents might be invalidated in court if the Patent and Trademark Office (PTO) missed pertinent patents or printed materials during the course of patent examination.

* * * It is the purpose of S. 1679 to bring these uncited patents and printed publications to the attention of the PTO for a decision on whether an issued patent is valid; whether its claims should be narrowed, or whether it should not have been issued. Under reexamination, an issued patent's claims could [n]ever be broadened.

* * * The reexamination of issued patents can be conducted with a fraction of time and cost of formal legal proceedings. Reexamination will help to restore confidence in the effectiveness of our patent system by efficiently bringing to the PTO's attention relevant materials that are missing or have been overlooked.

Now, after 13 years of experience with reexamination, the U.S. Patent and Trademark Office and the AIPLA agree that the procedure is not performing as effectively as was envisioned when it was created.

The AIPLA supports S. 2341 which, in substance, contains a plan of reform finalized in 1991 after several years of consideration within AIPLA, endorsed by the Secretary of Commerce Advisory Committee on Patent Law Reform in 1992, and currently supported by the Clinton Administration. We will forward to the Subcommittee comments on drafting and technical issues promptly.

But today I offer the Subcommittee the views of AIPLA on the four elements of reform of existing reexamination law and practice included in substance in S. 2341 and recommended by the AIPLA:

1. Once a judgment has been entered in federal district court against a party to a suit that it has not sustained its burden of proving a patent in the suit invalid, that party, and its privies, shall be barred from filing a request for reexamination, or maintaining a reexamination proceeding, of the patent at issue. For these purposes, a "judgment" includes a consent decree, a stipulation, or other dismissal with prejudice unless the right to file for or maintain a reexamination is specifically reserved.

Discussion: In 1988, the Federal Circuit decided *Ethicon, Inc. v. Ouigg*, 849 F.2d 1422 (Fed. Cir. 1988) and held (a) that the PTO could not stay reexamination to await the outcome of an ongoing trial in a District Court, even where the trial had been completed, and (2) that the PTO in reexamination is not bound by a District Court decision (or for that matter a Federal Circuit decision on appeal from a District Court) upholding the validity of a patent but could correctly find the patent to be invalid on the same evidence. The proposition that the PTO in an *ex parte* reexamination could overrule the decision of a federal district court on the validity of patent claims was clearly not intended.

2. The order for reexamination and the first action on the merits in reexamination should be consolidated to expedite the reexamination process and eliminate the seldom used filing of a statement by the patent owner in reexamination requested by third parties.

Discussion: S. 2341 would amend 35 USC §304 to make this procedure optional rather than mandatory as we recommend.

3. Expand third party reexamination requester participation to permit the requester to file a single set of comments with the examiner at two specific points in the reexamination proceedings: the first after the patent owner's response to the consolidated order and first action on the merits, and the second at the conclusion of the reexamination proceedings before the examiner if any claim is indicated to be patentable, but before any appeal.

Discussion: Providing a third party requester two opportunities to comment during reexamination before the examiner, within time limits and under controls set by the Commissioner to regulate submissions is sufficient. No other comments should be permitted. Providing greater third party participation has received strong support in a number of surveys of AIPLA members.

However, strong concerns have been expressed by some that expanded participation by requesters could lead to lengthy, costly procedures as were experienced with the reissue/protest practice in effect in the PTO in the late 1970s and early 1980s. Parties often abused the reissue/protest practice by delaying tactics and the filing of many lengthy protests and comments during that process.

S. 2341 would amend 35 USC §305 to allow a third party requester to comment on any response by the patent owner to an Office action on the merits. AIPLA gave serious consideration to this approach. However, we concluded that most of the advantages of third party requester participation would be achieved by two opportunities for comment. The benefits of only two responses are minimal added expense or opportunity of harassment of the patent owner, and little or no time lost in the proceedings before the examiner. We urge the Subcommittee to reconsider this provision of S. 2341.

4. Permit a third party requester to elect to appeal an adverse decision to the Board of Patent Appeals and Interferences and then to the Court of Appeals for Federal Circuit, but making such an election would waive the party's right to assert or continue to assert the invalidity of that patent in any other forum on grounds which were raised or could have been raised in the reexamination proceeding being appealed.

Discussion: This recommendation would permit appeals to be filed by a third party requester who so elects but in doing so the requester waives the right to assert or maintain an assertion of invalidity of the same patent claims in any other forum on any ground that the requester raised or could have raised in the reexamination proceeding. Such grounds would include any assertion of invalidity based on prior patents or printed publications but not non-available grounds such as prior public use or on sale bars.

This provision places the third party requester in a position similar to that of the patent owner who faces a *res judicata* or estoppel effect with respect to matters determined in reexamination. It should discourage harassing or unnecessary appeals by third party requesters and provide a measure of finality to appealed decisions in which third party requesters have participated.

Based on the multiple surveys of AIPLA members, there is strong support for a right of appeal to the Federal Circuit by a third party requester. However, there was concern that problems may arise in a case in which both parties appeal by permitting a patent owner to either appeal to the Federal Circuit or to file a civil action in district court while the third party requester only has a right to appeal to the Federal Circuit. See *Boeing v. Comm'r*, 858 F.2d 878, 7 USPQ2d 1487 (Fed. Cir. 1988). The approach recommended removes the patent owner's right to appeal to the district court in reexamination proceedings and to provide no such right to the requester. District court proceedings are generally lengthy and, therefore, contrary to the strong interest that reexaminations be conducted with special dispatch. Further, § 145 is little used in reexamination—in 1989 and 1990 for example, only one such action was filed.

In sum, the AIPLA believes that the two comment/appeal/waiver approach would make reexamination fairer and more useful but with minimal risk or danger of com-

promising its original purpose and goals which importantly included maintaining the *ex parte* nature of patent examination/reexamination. With these changes, we would expect that reexamination will be used more frequently by third party requesters and provide a relatively inexpensive, fast and newly effective *ex parte* proceeding as an aid to strengthening issued patents and as an alternative to litigation.

We believe S. 2341, an amendment to limit third party participation, offers a workable and fair compromise between a strong majority in the bar who support greater third party participation and those who express very valid concerns about preserving the original aims and goals of reexamination and avoiding the pitfalls of the *inter partes*/protest proceedings in effect several years ago.

Thank you for the opportunity to testify today. I welcome any questions the Chairman or Members of the Subcommittee have.

Senator DECONCINI. Thank you, Mr. Griswold.

Mr. Budinger, your situation is of great interest to this Senator, and Senator Biden as well has talked to me about it. That's part of the purpose of these hearings.

If I understand the situation in your particular case, you invented the product and patented it, and then you came up with another integrated process that goes along with the original process that you kept as a secret. Is that a fair summary of it?

Mr. BUDINGER. That is. That's correct.

Senator DECONCINI. Now, the process that you did not patent, you have continued to use for a long period of time?

Mr. BUDINGER. Almost 20 years.

Senator DECONCINI. The patent ran out on the original product?

Mr. BUDINGER. That's correct.

Senator DECONCINI. And now, you are fearful that someone who is manufacturing your product because it is no longer patented, and has been able to figure out the secret process that you use, they have filed a patent on your process and could restrict you from using your secret process, which would prevent you from the sale or manufacture of your product?

Mr. BUDINGER. That's exactly our concern.

Senator DECONCINI. Having said all that, the question is, has that occurred? Has someone patented your process?

Mr. BUDINGER. Yes.

Senator DECONCINI. The so-called secret process?

Mr. BUDINGER. That is correct.

Senator DECONCINI. Have they made any demands on you to not use it?

Mr. BUDINGER. No; fortunately, the patent is owned by a country that has so far been somewhat averse to litigation.

Senator DECONCINI. And do you know of instances where there has been such an enforcement of a patent of someone's business secrets that has prevented them from using that in the continued production of their product?

Mr. BUDINGER. No, we don't, but I'm not sure that's significant because that isn't something that we normally pay a lot of attention to unless it's us.

Senator DECONCINI. I understand.

I wonder how extraordinary this is and whether or not we may be facing a number of potential incidence like this, like yours, if we don't do something.

Mr. BUDINGER. Our counsel tells us that it is not uncommon; in fact, one of the letters that I've submitted to you is from a counsel which says that this has happened to a number of his clients. In

our case it has happened more than once. I have chosen one particular example which, at Mr. Banner's suggestion, was the one least likely to get us into trouble by somebody deciding, "Hey, we want to go litigate that." In fact, there are several patents that are now issued to foreign companies on processes that we have been using for a longtime.

Senator DECONCINI. Mr. Banner argues—as I understand it, and Mr. Banner, please correct me—if you had published in a trade magazine and made some reference to your secret process, or you had plant showings where someone could observe it, then there would be a prohibition of someone prohibiting you from using the process that you invented but kept secret.

Is that correct, Mr. Banner?

Mr. BANNER. Yes, Mr. Chairman. I might add—

Senator DECONCINI. I'm going to give you plenty of time to answer that. I just wanted to be sure that that's what you said.

Now, Mr. Budinger, if that is the case, and I have no reason to doubt Mr. Banner's expertise in this area, did you consider doing that? Or did you even know that maybe you had those options?

Mr. BUDINGER. Yes, we did know we had the option. We really wouldn't want to do that for economic reasons. We have spent a lot of money and time in developing this technology and the last thing we would want to do would be to make that as a gift to the competition.

Senator DECONCINI. OK; so it's a matter that if you did what Mr. Banner suggested you could have done, then that would have given you a clear defense of anybody keeping you from doing it, but that would have disclosed the process that you kept as a secret, thereby giving it up to the competitor?

Mr. BUDINGER. Correct.

Senator DECONCINI. Now the fact is that they found it through their own intellectual capabilities, they have discovered your secret?

Mr. BUDINGER. Right.

Senator DECONCINI. Then that's fair game, and you're not complaining about that?

Mr. BUDINGER. Correct.

Senator DECONCINI. Because the patent has run out, your product is open to anyone to produce and if they do reverse engineering or whatever and come up with your secret, you're not saying, "Hey, you can't have it because you never patented it?" You just don't want somebody to keep you from using your secret process.

Mr. BUDINGER. Exactly right. If someone else figures out what we're doing and gets a patent on it, the fact that we chose at some point not to do that—that's our risk.

Senator DECONCINI. You don't have any problem with our legislation here, giving the burden of proof on you or someone like you to satisfy that this truly was a usable secret?

Mr. BUDINGER. No, I think that's very appropriate. The burden of proof should be on the prior user.

Senator DECONCINI. Mr. Banner, you wanted to respond?

Mr. BANNER. I just wanted to say, Mr. Chairman, that my advice to Mr. Budinger was free. I just wanted to be sure that was clear. [Laughter.]

Senator DECONCINI. I'll tell you, that's a very generous thing, Mr. Banner, and I imagine Mr. Budinger pays plenty of lawyers' fees and I'm sure he'll send you a "thank you" for that.

Mr. BANNER. Do you have a question for me?

Senator DECONCINI. Yes, I do. First of all, for the record you said that all the universities oppose this bill. We've worked very closely with the Association of University Technology Managers, Inc.; you are familiar with that group, Mr. Banner?

Mr. BANNER. Yes.

Senator DECONCINI. Their president, Mr. Hostetler, sent us a memo on prior users' rights. He has worked with us on the draft, which is substantially the bill that has been introduced. Although it is not a resounding support of the bill, I will just read a part of it and I will put the full memo in the record.

It says, "Thus we feel we should either give Mr. Budinger's bill our qualified support, or at least indicate that we won't actively oppose it—at least as long as it remains as drafted," which it has done.

So I think your representation that the universities oppose this is inaccurate. They may not support it as the Intellectual Property Owners do, but certainly they do not find objections to this limited bill where we have attempted to rectify all outstanding concerns, and I want the record to show that.

[The referenced memorandum follows:]

ASSOCIATION OF UNIVERSITY TECHNOLOGY MANAGERS, INC.,
Corvallis, OR, June 20, 1994.

TO: All AUTM Members

FROM: William Hostetler, AUTM President

RE: PRIOR USER RIGHTS

As you may be aware, efforts are underway to introduce Federal Prior User Rights legislation. In order to keep you updated on the progress of this issue, enclosed you will find a memo, "The Threat to Small American Manufacturers," from W.D. Budinger at Rodel, Inc., a copy of the Proposed Prior User rights Bill as it currently exists, and a copy of a section-by-section analysis of the bill.

The stand being taken by the AUTM Board is as follows: While we would rather not have any form of Prior User Rights or only a limited form that has to be claimed within some reasonable time after a patent issues, we are convinced that Mr. Budinger's proposed legislation is about as limited a form of Prior User Rights as we are ever going to see. Thus, we feel we should either give Mr. Budinger's bill our qualified support or at least indicate that we won't actively oppose it—at least as long as it remains as drafted. Hopefully passage of the Budinger bill will forestall the introduction of a broader form of Prior User Rights of the sort that some of the larger industrial corporations have been pushing.

Members of the AUTM Board have worked with Mr. Budinger to narrow the bill as much as possible and he has tried very hard to meet our concerns because he wants university support. He has a commitment from DeConcini's staff that, if the bill becomes controversial and gets changed, they will see that it is withdrawn from consideration.

The AUTM Board feels that it would be a waste of our efforts to actively oppose this bill but the Board will make clear that any broader form of Prior User Rights would result in our strong opposition.

This is AUTM's position on this issue. AUTM Members should feel free to express their individual opinions to their Washington representatives and to the AUTM Board. We would appreciate it if you would forward copies of any letters you write to Penny Dalziel at the AUTM Headquarters.

THE THREAT TO SMALL AMERICAN MANUFACTURERS

A new threat has appeared to the technology used by America's small manufacturers. It is becoming possible to stop American manufacturers from using their own technology—technology they may have been using for decades. Individual inventors and small manufacturers are particularly at risk.

Here as one real life example from Rodel's experience:

For years our company has been manufacturing one of its principle products by using a fairly simple process involving heat. When we first began the process almost 20 years ago, the process was not considered patentable. Now the intellectual property climate has changed and many such processes are more easily patented. However, because heating is old art to Rodel, we long ago lost our right to patent it. On the other hand, a company which has not previously made a product using such a process is not similarly precluded from filing for a patent. A few years ago, a foreign company analyzed our product and determined that we made it using heat (a fairly easy analysis to make). they filed a patent in their own country claiming the use of heat. They then filed for and received a U.S. counterpart patent. We now find ourselves facing a new U.S. patent on the process that we developed 20 years ago to make our product. The foreign company that holds the patent is a huge corporation. It dwarfs our small enterprise. If they choose to enforce their patent, they have the financial horsepower to overwhelm us. Our attorneys tell us that under U.S. law, the holder of a valid patent on our process would almost certainly be able to stop our production.

This threat did not always exist in its present form. It is a side effect of changes in our court system (CAFC), the dropping of trade barriers, and the increased interest by foreign firms in U.S. technology and the patent system. Indeed, most small U.S. firms do not yet compete globally and are not yet aware of the threat. As was our case, most inventors believe that if they have been using technology for more than a year, it can't be patented. Most of us are not aware that our use of technology is not necessarily a bar to some one else coming along much later and getting a patent on it. We are vulnerable in a way we never expected.

The situation is particularly acute for smaller enterprises. Most manufacturers, especially small manufacturers, do not, and indeed cannot, patent all their technology. Patents are expensive and their prosecution takes precious time away from management or new innovation. Inventors and small companies generally try to patent only those inventions that they intend to sell on the open market. The hundreds or thousands of little innovations that are incorporated in their tooling, processing, or intermediate materials are rarely patented. If small companies were required to patent everything they want to keep using, they would have to submit every piece of their technology for review by patent attorneys. Such reviews (and the resulting defensive patents) would be prohibitively expensive.

We must do something about this problem. Small enterprises are the spawning grounds for our economic future. More and more, the survival of these small enterprises will depend upon their global competitiveness. This issue strikes at the heart of that competitiveness—the cost and effectiveness of protecting hard earned technology. None of our major foreign competitors operate under the disadvantage we have. To protect their technology, our foreign competitors need only keep it confidential. Their laws assure them the right of continued use even if someone later comes along and gets a patent. On the other hand, under American law, in order to be assured the right of continued use, we *must* publish our technology either openly or in the form of patents. But even if we could afford to file for U.S. patents on everything we do, filing creates a new danger. Since our foreign competitors are free to read U.S. patents (and soon even our applications may be published), they gain immediate access to our technology. If we are required to defensively patent all our processes, the only way we can globally protect ourselves is to file counterpart patents all over the world. The burden is huge. The cost of filing and maintaining just one European patent is \$88,000. That doesn't include Asia or any of the costs of enforcement. No. Defensive patenting is just not a viable option for small U.S. companies operating in a global marketplace. We must be able to keep our technology confidential without fear that it can be taken from us.

Our major trading partners have already addressed this issue and protected themselves. They can safely keep their technology confidential because they have added "prior user rights" to their patent law. Under a prior user right, if a patent

issues and someone else can prove that he has been using the technology since before the priority date, the law protects continuation of that prior use. As things stands now, if we get a patent on their technology, they can keep operating. If they get a patent on our technology they can shut us down.

The problem can be easily fixed by incorporating prior user protection into American patent law. But we need to act quickly. According to that celebrated statement made by Fujitsu, the accumulating mass of foreign patents is a sleeping bomb over American industry.

Senator DECONCINI. Now, Mr. Banner, let me ask you this —

Mr. BANNER. May I comment on that, sir?

Senator DECONCINI. Sure.

Mr. BANNER. I think you will find the record clear, that I didn't say "all universities" were opposed to it. I said "universities" were opposed to it. I got that from Mr. Bremmer, who is very active in that association. His telephone conversation with me indicated that he, who is very active in the university area, and others who are of a similar ilk, oppose this bill. That's where I got it.

Senator DECONCINI. Certainly, this organization represents, I would suggest, the university community. It may not represent every single opinion of every university, but it is the most prestigious group I know of, of universities that deal with technology, and they do not oppose it. You don't question that, do you?

Mr. BANNER. Not at all.

Senator DECONCINI. OK.

Now, Mr. Banner, let me ask you this. The ABA meeting in New Orleans this last week adopted a resolution in opposition to S. 2272, specifically.

Mr. BANNER. Yes, that's correct.

Senator DECONCINI. Now, does that mean that the full ABA voted on that? That was presented to the full House of Delegates, or whatever it's called?

Mr. BANNER. No. The House of Delegates had adopted the resolution back in 1968, which is almost identical to the one which was adopted by the Council of the Section last Saturday. As a matter of fact, the Council's Section resolution was patterned on the position taken by the American Bar Association.

Senator DECONCINI. In 1968 the American Bar Association as a whole—its delegates—

Mr. BANNER. The House of Delegates, yes.

Senator DECONCINI [continuing]. The House of Delegates passed a resolution?

Mr. BANNER. Yes.

Senator DECONCINI. I'd like to have that for the record.

Mr. BANNER. Yes, you will. I will put it in with my statement.

Senator DECONCINI. And then just last week, the Section on Patents and Copyrights, the full group, meeting in their regular meeting, adopted a resolution in support of the 1968 resolution of the House of Delegates, is that accurate?

Mr. BANNER. No, it is not accurate. The council of the section—

Senator DECONCINI. The council? What is the council?

Mr. BANNER. The council is the governing body of the section.

Senator DECONCINI. Like a board of directors?

Mr. BANNER. Like a board of directors.

Senator DECONCINI. Of the section?

Mr. BANNER. Yes.

Senator DECONCINI. So it was never presented to the section at the American Bar Association meeting?

Mr. BANNER. That's correct. It readopted the position of the American Bar Association. Not that it had to.

Senator DECONCINI. Does the council of the section normally take positions on behalf of the section without presenting them to the section?

Mr. BANNER. It takes those positions, Senator, when two things occur: number one, when the situation is one which is in accordance with the American Bar Association position, the major group, the House of Delegates, and when there is some reason to believe that there is urgency. The reason to believe that there was urgency was the fact of these hearings today, on Tuesday. The meeting was last Saturday.

Senator DECONCINI. And you were prohibited from presenting it to the full section?

Mr. BANNER. There was no full section meeting at that time.

Senator DECONCINI. There was no full section. And was there a full section meeting during this Bar convention?

Mr. BANNER. No.

Senator DECONCINI. Oh, I see. So there—

Mr. BANNER. Well, there was a section meeting, but it was not a business meeting for the purpose of discussing these resolutions. Resolutions come to the floor of the section after committee action and committee vote.

Senator DECONCINI. Committee? You mean the council?

Mr. BANNER. No, I mean that the section itself, now, is divided up into different committees, and the different committees, during the committee year, formulate resolutions. Those resolutions, then, are debated at the full meeting. The full meeting here was in June—

Senator DECONCINI. Oh, I see. So you didn't know about this bill?

Mr. BANNER. That's right.

Senator DECONCINI. So there was no committee review of this bill in the June—

Mr. BANNER. There was a very brief committee review because a special committee had heard about the bill, but they couldn't form a committee report because of the time factor.

Senator DECONCINI. I see.

Now, will this be presented to the committee of the section at the next meeting of the section or the committees?

Mr. BANNER. I don't know.

Senator DECONCINI. Is your council decision the final decision for the section?

Mr. BANNER. Well, the section really can't adopt a resolution, Senator, which is contrary to the resolution of the American Bar Association. It can adopt a resolution which asks the American Bar Association to change its position.

Senator DECONCINI. Sure, and that's what I'm trying to find out. If this committee doesn't look at this legislation in depth and doesn't present whatever their findings are to the full section, and the fact that the resolution of the full House of Delegates was in 1968, which I'm sure you will agree was a longtime ago in the

sense of technology advancements and litigation and what have you, it seems to me that the American Bar Association is indeed, as Mr. Smith said, knee-jerk in its reaction to this legislation. This is very disappointing to me, being a member—although not an active member — of the American Bar Association, for such a knee-jerk reaction to legislation that they would not at least pass with some qualifying statement saying, "We will look at it, we will review the 1968 resolution and what technology and litigation might have transpired between then and now, when we are asked to come before the Judiciary Committee with a statement either in support or opposition." I respect the Bar Association in opposing it; I respect the section in opposing it; I respect the council in opposing it; I respect whatever their judgment is. But I find it very, very difficult to respect the process that the Bar Association has implemented here in such short notice, with no qualifications, on the basis of a process that ought to be fair on the part of the Bar Association. I suspect there are some lawyers within that section that would have strong feelings and very well may be members of Intellectual Property Owners—as you were for a longtime, the beginner of it, as I recall, and the former President and an innovator in moving intellectual property here—who would like to have had some say.

Wouldn't you think so, Mr. Banner?

MR. BANNER. I think it would be difficult to say that there's something wrong with the process if we didn't know there was such a hearing scheduled until very recently. There was a special committee report; we had the special committee consider it, and if there is a need to reconsider it—that is to say, if this bill isn't passed until the next time the section meets—it probably will be considered. But if the bill were to be passed tomorrow, I doubt very much whether we would consider it.

Senator DECONCINI. I haven't seen your resolution from the—I guess it's a resolution from the council——

MR. BANNER. Yes.

Senator DECONCINI [continuing]. But I presume it flat out opposes S. 2272, with no qualifications or caveats or what have you about "Perhaps we should review this in light of the last time the Bar Association took a formal position, in 1968."

MR. BANNER. Well, there have been several considerations of this issue in general, but not specifically on this issue. I think I can assure you, Senator, that if this bill wasn't passed for another year, there would be a committee that would look into it again. I don't see any reason why it wouldn't be.

Senator DECONCINI. Why didn't the council indicate that because this was a very limited emergency that they would have to stand with the Bar's position of 1968, but due to the fact that that was many years ago, technology has changed, litigation has changed, that you would oppose it but would certainly review it very carefully due to these circumstances? Was that ever discussed in the council?

MR. BANNER. It was expected in the council that this bill would be likely enacted in the very near future. That was the atmosphere in which the council met.

Senator DECONCINI. There was no discussion as to the merits or any changes that might have occurred since 1968?

Mr. BANNER. Oh, yes, there was.

Senator DECONCINI. There was?

Mr. BANNER. Yes; there was discussion of what might have changed since 1968, and the council's position was that nothing, as it relates to this issue, had changed since 1968.

Senator DECONCINI. Nothing?

Mr. BANNER. Nothing.

Senator DECONCINI. So since 1968, there absolutely were no changes at all in technology or litigation or cases affecting this prior user right? That's what was presented by the council?

Mr. BANNER. No, Senator, I didn't say that no technology had changed.

Senator DECONCINI. Well, you said there was no——

Mr. BANNER. I said that with respect to this issue—that is to say, whether or not there should be a royalty free license to somebody who would start something prior to the filing date of a later application—that hasn't changed at all.

Senator DECONCINI. No; didn't you say that there had been no changes since 1968? Isn't that what you said?

Mr. BANNER. In this issue, the issue of whether——

Senator DECONCINI. Yes, in the prior user rights issue.

Mr. BANNER. That's correct.

Senator DECONCINI. OK; so there had been no changes?

Mr. BANNER. That's correct.

Senator DECONCINI. So that's what was presented and that was what the council adopted.

Mr. BANNER. I don't know if it was presented, but that's what the council adopted.

Senator DECONCINI. Well, you said it was presented. You said there was discussion on it.

Mr. BANNER. There was discussion——

Senator DECONCINI. And if there was discussion, it had to be presented, did it not, Mr. Banner, that there had been "no changes in the prior use rights position, or in this area of the law, since 1968, so we are adopting this resolution?" Isn't that a fair conclusion?

Mr. BANNER. If you mean "presented" in the sense that it was discussed, I said it was discussed, but there was no statement presented to the effect that it hadn't changed.

Senator DECONCINI. But isn't that what you're saying? Isn't that what you just said, that it hadn't been changed, so that's why you adopted the resolution?

Mr. BANNER. Senator, I don't know what you're saying.

Senator DECONCINI. What I'm saying——

Mr. BANNER. The council adopted the resolution——

Senator DECONCINI. I don't mind telling you what I'm saying. I think the Bar Association and this council had it rigged, and it acted as a knee-jerk reaction without being fair or without being very judicious in the sense of what lawyers are all about. So to have a resolution of 1968 and not have some presentation, or at least put a caveat or a qualifier in the opposition because of time—and I understand that—to me, the credibility of the Bar Associa-

tion is certainly questioned in this particular interest. That's just the opinion of this Senator; nobody else is here; maybe nobody gives a damn, but to me, I value the Bar Association. We asked them to testify. I've worked with the Bar Association on this particular section on much legislation, and they have been very specific and thorough in their reaction. I've worked with them on the family section. I've worked with them on the criminal section, on the Constitutional section. I find them to be extremely thorough and to review things that might date back to 1968. I don't find that in your presentation today.

Mr. Griswold?

Mr. GRISWOLD. Senator, I am a member of the American Bar Association and I am familiar with the proceedings. Actually, there was a resolution passed by the section, the full membership of the section, in 1982 that was in favor of prior user rights—not in the context of harmonization.

Senator DECONCINI. Mr. Banner, are you aware of that?

Mr. BANNER. No.

Senator DECONCINI. You're not aware of that?

Mr. BANNER. No; I know there have been several resolutions over the years, OK?

Senator DECONCINI. You're not aware of that, and yet your council passes this resolution? I mean, that——

Thank you, Mr. Griswold.

I'm sure you won't be held in high esteem at the next Bar Association meeting, but who cares, right? I mean, this is the kind of shenanigans that, to me, is disheartening; from the most prestigious organization of lawyers in the world, one that has, to me, the capability of having credibility with the American public, as well as lawyers. And this is just one incident. I wonder how many others there are.

Mr. BANNER. Let me ask you a question.

Senator DECONCINI. Yes, sir?

Mr. BANNER. What resolution are you talking about?

Mr. GRISWOLD. Resolution 206-1.

Mr. BANNER. When was it passed?

Mr. GRISWOLD. In 1982, is what I have.

Mr. BANNER. In 1982?

Mr. GRISWOLD. Yes.

Mr. BANNER. I don't have anything here in 1982. I have one in 1993, but that has to do with harmonization, which is certainly not what we're talking about.

Mr. GRISWOLD. That's right. The resolution that was passed in 1993 did relate to the context of harmonization, but the 1982 resolution, as I understand it, on its face certainly doesn't indicate any reference to harmonization.

Senator DECONCINI. Mr. Banner, I have it here and I will be glad to give you a copy. I'm going to put it in the record, and we will be glad to share it with you. That's all I need; I think it's pretty clear where the Bar Association is coming from on this one.

[The copy of Resolution 206-1 follows:]

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ICE WITH CONTRACTS

1982 Committee
report with proposed resolution that
was amended
and passed.

that whether or not there is a valid copyright, if the subject matter is found to be that which is capable of being copyrighted, the courts will find preemption. On the other hand, even though the state law cause of action might require proof of additional elements, for example intent, secondary meaning, or likelihood of confusion, if the relief sought is found to be "equivalent" to that of copyright, then the preemption of Section 301 is found controlling.

It is interesting to compare those cases finding preemption with those recent cases in which the courts have decided the issue of whether a state statute attempting to control "blind bidding" by motion picture distributors is unconstitutional. In holding that the statutes are a proper exercise of state power and not in conflict with the federal scheme, the courts necessarily construe the legislative history underlying Section 301 but in a direction clearly limiting the scope of Section 301 to preempt only what would have been protected under state common law copyright theories prior to the 1976 act. *Associated Film Distribution Corporation v. Thornburgh*, 520 F. Supp. 971 (E.D. Pa. 1981); *Allied Artists Corporation v. Rhodes*, 496 F. Supp. 442 (N.D. Ohio 1980). Perhaps this is the proper analysis. If so, then if should be used also in a determination of whether a state unfair competition claim has been preempted.

SUBCOMMITTEE B - PAUL M. ENLOW, *Subcommittee Chairman*

Subject 2. RECONCILIATION OF THE TRADE SECRET/PATENT CONFLICT.

PROPOSED RESOLUTION 206-1.

- 1 RESOLVED, that the Section of Patent, Trademark and Copyright Law
- 2 favors in principle legislation providing an *in personam* right or right of prior
- 3 ~~(non-informing)~~ public user to the first inventor who elects to keep his invention
- 4 a trade secret, and further provides that the patent on the same invention
- 5 which was independently discovered by a subsequent inventor shall not be
- 6 held invalid based on the trade secret ~~(non-informing)~~ public use of the first
- 7 inventor.

Past Action. The following resolution was recommended by the Section at the August meeting in August 1981 (1981SP67-R206-2).

Proposed Resolution No. 206-2

RESOLVED, that the Section of Patent, Trademark and Copyright Law favors in principle the concept and enactment of an *in personam* right or right of prior user as a means to resolve the conflict between the first inventor who keeps his invention a trade secret and the independent second inventor who obtains a patent on the invention.

"I-2"

The following resolution was defeated by the Section at the Annual Meeting in August 1979 (1979SP88-R402-2).

Resolution No. 402-2

RESOLVED, that the Section of Patent, Trademark and Copyright Law favors in principle legislation providing that one who has elected to practice the use of an invention as a trade secret rather than to patent it shall have no supervening right to continue practicing it as against one who independently invents and patents the invention.

Discussion. This is the eighth year that this committee has considered the respective rights of the first inventor who keeps his invention as a trade secret and a second who independently discovered the invention and obtains a patent. As indicated by the disposition of the 1979 resolution and the 1980 resolution the Section has had difficulty in providing a solution to the conflict between a first inventor trade secret user and a second inventor patentee.

Most of the industrial nations of the world have solved this problem by creating a "right of prior user" which permits the trade secret user to practice his invention in secrecy without fear that a subsequent patentee will be able to assert the patent against the trade secret user. These countries do not recognize a prior trade secret use of an invention known to the patentee to render the patent invalid. There is little case law directly concerning the conflict and as indicated in last year's committee report the cases are ambiguous as to whether a prior trade secret use of an invention later discovered independently and patented should defeat such a patent. It is the purpose of the newly proposed resolution to solve the conflict by protecting the trade secret user from the action by the second inventor patentee and at the same time eliminate the possible consequence of invalidating a patent based on a prior secret use.

Many authors have discussed the problem under consideration following the Supreme Court's Opinion in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), wherein the court noted that the patent laws and the trade secret laws are compatible since they both encourage the development of new inventions. It seems axiomatic that since the primary goal of the patent laws is to promote the advancement of the Arts and Sciences in return for disclosure to the public, the patentee who does disclose his invention should not be punished by invalidating his patent due to the prior independent secret use. See for example, *The Trade Secret Owner v. The Patentee of the Same Invention: A Conflict?*, 57 JPOS 742 (1975); *The Rights of the First Inventor Trade Secret Users as Against Those of the Second Inventor—Patentee*, 61 JPOS 574 (1979); and *The Non-Informing Public Use Concept and its Application to Patent-Trade Secret Conflicts*, 45 Albany Law Review 1060 (1981).

Unless legislation is enacted providing protection for the prior user of a trade secret and also protection for the second independent inventor who secures a patent, there will continue to be mutual destruction of patents and trade secrets. The solution clearly is to let the patent stand without being invalidated by a prior trade secret use and at the same time assure the trade secret holder that he will not be the subject of a later filed patent infringement suit. By protecting the rights of both parties the patentee would receive protection for his invention and the independent trade secret user would be allowed to continue using his invention. This solution would be in conformity with the *Kewanee* decision and would satisfy the constitutional mandate concerning the use of patents to promote the progress of the Arts and Sciences.

SUBCOMMITTEE C WILLIAM L. LAFUZE, Subcommittee Chairman

Subject 3. UNIFORM TRADE SECRETS ACT.

1982 Section
annual meeting at which
resolution was adopted.

"I-3"

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you have these same damages in both cases, even though 43(a) refers to registrants and there is clear statutory and decisional authority that the Lanham Act does not preempt state trademark and unfair competition statutes.

The initial topic we dealt with was "reverse confusion". The first thing we dealt with was the definitional aspects. With the advent of "reverse confusion" there are two types of confusion—ordinary confusion, where the defendant has suggested his goods come from the plaintiff, and reverse confusion, where the confusion is that the trademark owner's products come from the infringer. Those are typical cases where a small trademark owner is overwhelmed by a large advertising campaign from an infringer. We felt the doctrine itself was satisfactory. We had some serious questions regarding damages that have been assessed in cases of reverse confusion."

The council had placed Resolution 205-1 in Class 2, Approved, and the Section ratified Council's action.

Mr. McAuliffe then introduced Mr. Edward G. Fiorito, Chairman of Committee 206.

Resolution 206-1

Mr. Fiorito gave the Committee's report: "Committee 206 has been attempting to provide you with a resolution that will resolve the conflict between trade secrets and patents that has continued for almost the number of years clear back to the last time we met here in San Francisco.

"For those of you who may not be familiar with the conflict that arises, when a trade secret owner maintains his trade secret in secret, using it, and not divulging it or doing anything that would reveal it to the public, and quite independently at a subsequent time another independent discoverer invents the same invention and secures a patent, the conflict arises and the question arises whether or not the prior trade secret use should be a basis for invalidating the subsequent patent, or whether the patent owner should be able to successfully find that the prior trade secret user infringes his patent.

"The proposed Resolution 206-1 on page 136 of the Gray Book attempts to solve this conflict in an equitable way. It eliminates the possible consequence of invalidating the patent based on the prior trade secret use, while at the same time providing an in personam right protecting the trade secret user from being found to infringe the subsequent patent by the second inventor.

"This resolution is consistent with the Supreme Court's opinion in *Kewanee*, where the court ultimately held that the federal patent law, while prohibiting the states from setting up competing patent laws, does not preempt trade secret law. The court went on to state that the patent and trade secret systems are compatible, as both systems seek to encourage invention.

"It is this co-existence of the trade secret law and the patent law that makes it imperative that the conflict we are addressing here today be resolved through the enactment of legislation which protects the prior user of the trade secret and also protects the second independent inventor who secures the patent. Unless a reasonable resolution is found there will continue to be mutual destruction of the patent and the trade secret.

"Another point of consideration by the Committee was whether or not the in personam right applies to all types of trade secrets, and it is the intention of this Committee to have this particular resolution apply to all trade secrets, whether they are the kind of trade secret that is used in the manufacturing facility such as chemical processes or mechanical manufacturing equipment, as well as applying

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an in personam right to the types of trade secrets that are embodied in products that are put into public commerce—products which, however, do not divulge the trade secret.

"So, there may be ways of improving the language, and maybe we should improve it; but what we are asking here today is that rather than have the Committee come back next year or until the next time this Section meets in San Francisco, we feel the resolution captures the basic elements that could provide the basis for much-needed legislation to resolve this conflict.

Mr. Jorda proposed an amendment to Resolution 206-I, namely, the deletion of the term "non-informing public" in both occurrences on line 3 and line 6.

Mr. Jorda explained: "Mr. Fiorito has mentioned that the intention was that this resolution apply to all trade secrets, including trade secrets inherent in manufacturing processes. I will agree this is a greatly improved version over prior versions. However, I am afraid it does not apply to all trade secrets as it should. By removing this limiting language it would apply to all trade secrets. This limiting language narrows the resolution so much that it is practically useless, because it applies only to commercially marketed products."

Chairman DeGrandi noted that Mr. Fiorito accepted the amendment, and debate continued on the resolution.

Mr. Fryer favored the resolution, adding, "I would like to get on the record the fact that I interpret this as not precluding the possibility of writing in a more specific limitation on the term of the patent which is allowed to exist. I am uncomfortable with that patent being issued for 17 years. I would rather see, for example—and I assume this can be done and this resolution does not stop the Committee or the Section from voting in further detail later—that the patent might be limited to 17 years from the date of the first commercial use of that particular trade secret. I speak in favor of the resolution with that understanding."

Mr. Ackerman proposed an amendment: on lines 3 and 4 delete the words "to keep his invention a trade secret" and replace them with the words "not to seek patent protection on his invention."

Mr. Ackerman explained his amendment: "The reason I propose the amendment is because it seems to me in the wording of the resolution (which I approve of otherwise) the in personam right being proposed would be dependent on the persons keeping the invention a trade secret forever, that if the person perhaps published material after the patent was issued relating to his invention, or in another way it no longer was a trade secret, he would lose the in personam trade secret right. I would like to hear that discussed."

Mr. Fisher opposed the amendment: "I am sympathetic with the objective of the amendment, but I don't think it comes to where it wants to, because if someone files a patent application and fails to get a patent and wants to abandon, he is wiped out as amended."

The motion to amend was defeated. Mr. Rohrback rose in opposition to this resolution. "I believe this Section should encourage the prompt filing of patent applications, the use of the patent system, the prompt issuance of patents. I do not believe we should be as worried about the right of one who elects to keep his invention a trade secret as we are of the one who seeks to take advantage of the patent system.

"I believe this resolution encourages people to avoid use of the patent system, in the hope that they can maintain a monopoly on their trade secret ad infinitum, whereas the patent system itself would limit that monopoly. One who has done

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COMMITTEE REPORTS

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nothing to increase the sum of useful knowledge has deprived the public of what the patent system was intended to seek, the disclosure of the invention."

Mr. Fisher then moved to recommit: "The reasons are partly on the floor. There are a few additional ones. I would note that there is past action contrary to this resolution that is buried in the action of the Committee when it was resolved in a committee of the whole in 1966 or 1967 or 1968 when we met. Several times the issue came up and was rather soundly defeated.

"Secondly, I think the Committee report should take cognizance of Learned Hand's decision. I think that authority ought to be considered by the Committee."

Mr. Jorda opposed the motion to recommit. "I think this problem has become acute in recent years. This is not a new problem. It is only because of the *Bass* decision and others that in recent years district courts have struck down patent users left and right unjustly and unfairly. We have enlarged the extremes. Why should the first inventor or trade secret owner have to close down his commercial operation or pay royalties to a johnny-come-lately inventor? Or, on the other hand, at the other extreme, why should the second inventor, who gets a patent and discloses his invention to the public—why should he get his patent invalidated? Any number of cases come to mind.

"In the *Westward Chemical* case the court stated, 'Previous knowledge is available as prior art.' It should be enforceable against everybody else except the prior trade secret user, yet the prior trade secret user should have the in personam right to continue his invention unmolested by the patentee. This is fair to both parties."

Chairman DeGrandi called the motion to recommit, and it was defeated.

Mr. Newman then rose to oppose the Resolution. "My problem is keeping something a trade secret when an application has been applied for. I don't think we should countenance that by this type of resolution where that whole issue isn't even discussed in the Gray Book. It is trying to sneak in something that was not contemplated. For that reason I oppose it."

Mr. Ferrill then moved to table; this motion was defeated. The resolution was called for a vote and was adopted by the Section.

Chairman DeGrandi then stated: "I want to thank Jerry McAuliffe and all the chairmen of the 200 Series committees for the hard work they have put into their committees this year. You have seen the results in the Gray Book and in the reports given here today.

"Now we will turn to the Copyright Division. The chairman is Bill Borchard. We will take up Committee 303-1. Council has placed this in Class 1 for full debate. I stand corrected. It is a joint resolution, 301 and 303. Mr. Newbury will speak first."

Senator DECONCINI. Mr. Smith, do you think that there are enough safeguards in the prior use right bill to strike a good balance between the right of the prior user and the patent holder?

Mr. SMITH. Yes, Senator, I do. I think that this bill was very fairly crafted so that it does not unduly diminish the patent owner's rights. I can speak for intellectual property owners who are major holders of patents in the system. We are not just manufacturers; we are patentees as well, and we have the interest of both the patent holder and the manufacturer in mind.

Senator DECONCINI. Indeed you do.

Mr. Smith, some have argued that the patent holder ought to be compensated by the prior user; in this case, Mr. Budinger should pay something, with a license or something. What's your opinion on the payment of a reasonable royalty by the prior user to the patent holder? And it might have to be a mandatory payment.

Mr. SMITH. As you know, the Advisory Commission, under the last Administration, did recommend that there be the possibility that a court could grant such a royalty. Our view, however, is that in the interest of certainty and to avoid unnecessary litigation and unnecessary concern, a royalty free right—limited as it is in the bill to just the activity and reasonable variations of it that are in existence or planned in the way that the bill provides for, prior to the filing—is reasonable, and that it is not necessary to establish a royalty.

Senator DECONCINI. Mr. Griswold, I would like to ask you the same question.

Mr. GRISWOLD. OK; on that point, what had happened, if you had compensation—I am very much against compensation because it would force disclosure of the trade secret, because businessmen must know their cost of doing business, so they would be forced to disclose their trade secret to the patent owner and get that liquidated. It would be very egregious for a small business because small businesses frequently are sold to other companies, and that would have to be liquidated. No other company is going to buy a company with this hanging over it, with an unliquidated amount, so it would force a disclosure of the trade secret. So that's why an absolute defense is the best result, and that's what happens in other countries.

Senator DECONCINI. Mr. Banner, what do you think—not the Bar Association—on that question of royalty?

Mr. BANNER. I think it would be fair. I think that the right to obtain a royalty under the circumstances would diminish the opposition which one has in this area. Mr. Griswold just mentioned the fact that one of the problems might be that the prior user would have to disclose his trade secret; of course, that is one of the problems with this, as I indicated. If I go to General Electric or any other company with my patent, and they say, "We have a prior user," how am I going to find out if they have a prior user right or not? I might have to hire a lawyer and sue. That doesn't seem to me to be quite the result that you want, nor that anybody else wants. I think that if there were some kind of a fixed payment or something like that, it would ameliorate that problem and he wouldn't have to disclose it.

Senator DECONCINI. A compulsory license of some kind?

Mr. BANNER. Yes; yes.

Senator DECONCINI. Mr. Budinger, what do you think? What's your reaction, if you were guaranteed that you could get a license for a reasonable fee? They have to give you a license. I know you wouldn't want to do that, but would that give you some relief for your heartburn?

Mr. BUDINGER. It would concern us considerably in this case, for example, the one that I talked about, having practiced a process for 20 years, and then have somebody come in and say, "Now you can start paying us a royalty because we were clever enough to figure out how to get a patent on it."

There are a number of potential inequities here. One of the things that could occur in the absence of prior user rights and in the presence of the fact that patents are now much more enforceable than they were, is that it could encourage an awful lot of window-looking were people, frankly, are just coming by, looking in windows, and going home and writing patents on what they see.

I think most of this is an issue amongst manufacturers, and it's mostly about processes. The upshot of it is that we really need to be able to develop our processes and use them and not have to worry about them. If somebody can come in and start to ask us for royalties—maybe they've reverse-engineered how we did something—and in the case of a company that has been around for a little while, like ours has, we are precluded by the statutory bar from patenting all this stuff we've been doing. So we're stuck now, and if something were to come in that says people are now entitled to get royalties on it if they go patent it, that gives them an advantage that would seem very unfair.

Senator DECONCINI. Thank you.

Thank you, gentlemen. I want to just insert in the record also, Mr. Banner and others—I understand that in 1992 a proposed Resolution No. 102-7 was passed that favored the prior use right in a first to file system. I will insert that in the record and give you a copy of it, Mr. Banner.

[The copy of Resolution No. 102-7 follows:]

1992 Committee Report
with accompanying
discussion

The proposed
Resolution 102-7 was
passed after the Section's
1992 Annual Meeting
debate.

**PROPOSED SUPPLEMENTAL RESOLUTION 102-7
(PRIOR USER RIGHTS)**

1 **RESOLVED**, that the Section of Patent, Trade-
2 mark and Copyright Law favors in principle that
3 where a first-to-file system is adopted as part of a
4 patent law harmonization package, the enacting
5 legislation adopt a system of personal prior user
6 rights, that is non-assignable and non-transferable
7 except as part of a sale of a business where a
8 person shall not be liable as an infringer of subject
9 matter in a patent granted to another when that
10 person has, acting in good faith, commercially
11 used or sold in the United States, or has made
12 effective and serious preparation therefor of such
13 patented subject matter including an actual re-
14 duction to practice in the United States, before
15 the filing or priority date of the application for
16 patent.

Past Action. Rested as committee report at the 1991 Annual Meeting RESOLUTION 102-3 where the Section opposed in principle, in any patent harmonization treaty involving the United States, any requirement for a change in United States patent law that would provide for prior user rights.

There was further passed in 1989 GPI20-R-102-23 where the Section opposed in principle in any treaty

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relating to patent harmonization any provision providing for prior user rights.

Discussion. A prior user right as contemplated by this resolution is in the nature of an equitable right accorded to persons who have met certain thresholds regarding the commercialization of the invention, but have lost the race to the Patent Office. The prior user right is one way that the harshness of the first-to-file rule can be mitigated. A provision for a prior user right, should help alleviate the fears of those small inventors, who feel that they lack sufficient resources to win the race to the Patent Office against large corporations.

One of the counterarguments states that prior user rights violates a precept in present §102(g) that those who suppress or conceal their inventions should not prevail when they failed to file for a patent, but it should also be kept in mind, that §102(g) is a patent destroying provision, whereas prior user rights is merely a defense to a charge for infringement. Also the suppression and concealment concept is largely overridden by the difference of philosophy behind a first-to-file, rather than a first-to-invent system.

The real question is the scope of the prior user right. The present resolution limits the scope of the prior user right in two important respects. First, the resolution provides that the right is nonassignable and non-transferable, except as part of a sale of a business. This strengthens the concept that the prior user right is personal to the holder and cannot normally be traded or sold. To permit such unrestricted sales would weaken the strength of an issued patent.

The second manner in which the proposed resolution limits the scope of the prior user right is by requiring that the person asserting the right has, acting in good faith, commercially used or sold the invention in the United States or has at least made effective and serious preparation therefor, including an actual reduction to practice in the United States. Thus, the resolution recognizes that a prior user right should not lightly be given to those who are merely in preliminary stages of development of the invention. This restriction will lead to fewer disputes and prevent the over-dilution of the patent grant.

SUBCOMMITTEE B *GUZINA HOLTRUST,*
Subcommittee Chair

Subject 2 **EUROPEAN AND COMMUNITY
PATENT CONVENTION**

NO PROPOSED RESOLUTION

Past Action. None.

Discussion. Effective August 1, 1992 Ireland has followed Monaco and Portugal in joining the European Patent Convention (EPC) thus bringing to a total of 17 European countries, the membership in this Treaty.

EP applications to be filed under the PCT can designate Ireland (as of August 1, 1992) and Monaco presently already, but in the case of Portugal, since it is not yet a PCT country, a separate EP application must be filed designating only Portugal for the time being.

1992 Section
annual meeting
debate on proposed
resolution 102-7
which was passed.

stanoaro.

Delvalle Goldsmith, New York, NY:

(speaking in opposition) This resolution addresses two entirely different things. It talks about making our In re Hilmer doctrine apply to a convention priority date as well as the actual U.S. filing date. That part of it is a good idea because it makes us give national treatment which we are required to do by the Paris Convention. However, my main objection is that it brings in the question of making what is analogous to the Hilmer doctrine operate for novelty only, but not for obviousness. That completely changes our concept of prior application which isn't prepublished. I believe that is a very bad idea.

Robert L. Rohrback, Mt. Prospect, IL:

(moving to recommit) The reason for my motion is that we have a committee on International Patent Treaties and Laws proposing a resolution that would make a very fundamental change of U.S. patent law that will grant two patents for the same invention. That is, one differs from the other only by the disclosure of information that would have been obvious to a person of ordinary skill in the art at the time the invention was made. This affects the public greatly. It affects U.S. patentees greatly. It is going to dilute the value of U.S. patents because if the inventor

or assignee... the patent, the potential licensee must deal with two patents and make a deal accordingly. It harms the public because in effect the public is going to pay both royalties on the two patents for the entire life of both of them. It also permits one applicant by filing two applications to extend the life beyond either the present 17-year period or beyond the 20-year period that's contemplated in the harmonization treaty. This fundamental change in U.S. policy should be done by an appropriate committee with full discussion of the public interest or disinterest.

Jack C. Goldstein, Houston, TX:

(opposing motion to recommit) Except for the motion to recommit, I agree with everything Mr. Rohrback has said. His remarks would have been more appropriate, however, to support defeat of the resolution, rather than recommit. I do think we make a serious mistake in using recommit as the first attack on unsound resolutions. I think that we probably should vote on this resolution substantively and defeat it.

George R. Clark, Downers Grove, IL:

(supporting motion to recommit) I believe it is worth making a point that the committee report is sorely lacking when it comes to past action. This is a matter which has been before the Section on numerous occasions in connection, for example, with the Patent Cooperation Treaty in which In re Hilmer was one of the key issues. We had a special meeting of this Section that spent a lot of time on In re Hilmer. The committee report makes no mention of such past action.

The motion to recommit Resolution 102-6 was then voted upon and approved by voice vote.

Michael N. Meller, New York, NY:

(presenting Resolution 102-7) This resolution deals with prior user rights and I suggest to you that if we have a first-to-file system, the prior user right is one way that its harshness can be mitigated. A provision for a prior user right should help alleviate the fears of those small inventors who feel that they lack sufficient resources to win the race to the Patent Office against large corporations. One of the counter-arguments suggests that prior user rights violates a precept in present 102(g) that those who suppress or conceal their inventions should not prevail when they failed to file for a patent. But this concept is largely overridden by the difference of philosophy behind a first-to-file rather than first-to-invent system. The real question is the scope of the prior user right. The present resolution limits the scope of the prior user

right in two important respects: (1) the right is not assignable and non-transferable, except as part of a sale of a business and (2) it requires that the person asserting the right has, acting in good faith, commercially used or sold the invention in the U.S. or has at least made effective serious preparation therefor. The resolution recognizes that a prior user right should not lightly be given to those who are merely in preliminary stages of development of the invention. This concept is in the Report of the Advisory Commission and in the proposed legislation, as well as in harmonization treaty negotiations. It is important that this issue be adequately debated in the ABA and has not been in the past. It has been rejected, perhaps, but has not been adequately debated. If you believe in a first-to-file system, this is a necessary and equitable way to proceed.

S. Delvalle Goldsmith, New York, NY: (speaking in opposition) This resolution completely disregards one of the main purposes of the patent system—to get applications to the Patent Office and ultimately to have them published. This rewards the person who has used or has made bona fide preparation to use, but hasn't filed a patent application. This rewards that person by giving privileges and reducing the exclusive scope of the patent grant for the person who did go to the Patent Office and present a description of the invention. This is another fundamental change to our patent law since we don't have rights of personal possession now—the patentee gets the exclusive right.

Howard MacCord, Greensboro, NC: (speaking in opposition) I don't believe assignment only in connection with the sale of a business is much of a safeguard against abuse of prior user rights. For example, if Joe's Gas Station has a mechanic come up with an invention on a way to recycle motor oil, they might be using it at that gas station for a year or two before somebody else gets a patent. It turns out to be a very valuable invention and Exxon wants to get the patent. Exxon could buy out that gas station business and go like gangbusters with it and there's nothing in this resolution that prohibits it.

Robert L. Rohrbach, Mt. Prospect, IL: (moving to recommit) Here again, we have a resolution of the International Patent Treaties and Laws Committee that is encompassed by pending legislation. It should be considered by Committee 101 and should be considered in the context of pending legislation as to whether we want to support it, modify it or oppose it.

Thomas E. Fisher, Cleveland, OH: (supporting motion to recommit) The resolution is inherently inconsistent. How is it—if we are going to have first-to-file and absolute novelty and all this prior art—that the guy who's sold in the United States only gets personal unassignable rights. I thought he had done something to be an absolute buyer. Sounds good to me. There seems to be about six different thoughts in here which probably merit individual consideration—personal right, assignability, scope of defense against a charge of infringement, prior right versus the prior art. Then you get into effective and serious preparation. What is that? Who's going to make the determination?

Carl Moy, Minneapolis, MN: (point of information) I would like to know what the scope of this resolution is intended to be. Would or would not the prior user rights be available to someone who's derived the information from the person who's using the grace period. In other words does it have to be independent arrival at the information or an arrival of the prior use independent of the person using the grace period.

Michael N. Meller, New York, NY: (responding) The words "good faith" certainly indicate an equitable way of proceeding. Anybody who derives, I suggest, would not be a beneficiary.

Carl Moy, Minneapolis, MN: (point of information) So that the meaning of the words "in good faith" would be to exclude those people for prior user rights?

Michael N. Meller, New York, NY: (responding) Yes.

Carl Moy, Minneapolis, MN: (point of information) The second question I have is whether or not prior user rights will extend to people who are trade secret users. People who are actively attempting to conceal the details of a technological set of information that they are using that would otherwise become public but for those active efforts to conceal. Would such a person under this Resolution be entitled to prior user rights.

Michael N. Meller, New York, NY: (responding) Yes. Suppression and concealment is one of those things that is stated by 102(g) as a real no-no. What they are talking about here is really the small entity inventor who has been practicing a process for many years. It really involves a defense to a charge of infringement. Very few cases, by the way, have come up on prior user rights in coun-

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tries where it is used. When it does, it is usually as a defense to a charge of infringement.

Mark J. Banner, Chicago, IL:

(point of information) The resolution as framed suggests that the enacting legislature adopt prior user rights and there is a past action reported that opposes any prior user rights whatsoever. Is that inconsistent or am I missing something?

William L. Keefauver, New Vernon, NJ:

(opposing motion to recommend) We should not be afraid to debate these issues. Let's get it out on the table and debate what these words mean and whether we want it and to what extent we want it. The only reason I've heard for recommend is that it has to do with legislation and should go to the committee on legislation. It is clearly a harmonization issue, clearly a first-to-file issue. Let's get it out and debate it.

Jack C. Goldstein, Houston, TX:

(supporting motion to recommend) There is inherent vagueness in the words "acting in good faith." I cannot accept the assertion that acting in good faith precludes a deriver from acquiring intervening rights. There are several distinguished members of our Section that have strenuously argued that acting in good faith means anything other than commercial espionage. That if anybody sees a commercial product on the market and copies it before that original marketer files while he's operating the period of grace, then that second user does have prior user rights. "Acting in good faith" is in the eye of the beholder and that kind of vagueness and indefiniteness is the kind of thing that we shouldn't try to debate as a committee of the whole in the Section. We ought to have a specific resolution coming out of the committee that tells us exactly who has prior user rights as between a deriver and other actual original inventors.

William S. Thompson, Peoria, IL:

(opposing motion to recommend) This is exactly one of those subjects that we should debate on the merits. There are issues which, if debated, would give some instructions and some directions to our negotiators. In our law when we have 102(g)—where you have this prior reduction of practice before the invention of another—you destroy that patent, and as a result you have the right to continue to use that patent. That's considered a very harsh version of a prior user right. This is a little kinder because it allows that prior developer/user to continue but doesn't destroy the patent against all others.

I view the good faith issue somewhat differently. I believe it generic to either issue and that the question of whether a deriver can claim benefit of this is a separate issue. I believe in the context of harmonization we will eliminate the ability of a deriver to claim this. That's a separate issue and not in this resolution. This resolution does deviate from the proposal in the patent harmonization treaty with respect to the words "including an actual reduction to practice in the United States." The treaty does not require an actual reduction of practice. So one of the substantive differences for the Section to consider is whether you want a higher threshold. The way this debate is going there are no instructions on this substantive question and the treaty will be written without any idea of the sense of the intellectual property community.

James A. Baker, Cleveland, OH:

(opposing motion to recommend) Clearly the country is going in a direction toward first-to-file—whether we like it or don't like it. A first-to-file system without a prior user right is something that will be found unacceptable in this country. A first-to-file system must include a prior user right. It's a very important issue that should be debated.

Rene Tegtmeyer, McLean, VA:

(opposing motion to recommend) I merely add that whatever committee to which this resolution might ultimately be committed after a debate and a finding that the resolution has defects and warrants recommend would greatly benefit by first having the benefit of the debate and the views of the Section in reformulating any future resolution.

Donald W. Banner, Washington, DC:

(supporting motion to recommend) At the outset I would like to say that our negotiators are very intelligent and very skilled and don't require a great deal of "direction." I have heard very little discussion about the language "acting in good faith." I have heard one delegation specifically speak to this point and said "if you are operating in the grace period of time and I see what it is you're doing, I can start preparing and I have prior user rights." There's no question about what at least that delegation is thinking. Also, "effective and serious preparation." What does that mean? "Including an actual reduction of practice"—that's a substantive difference. Some have said that we need to discuss this issue. We have discussed prior user rights meeting after meeting.

George R. Clark, Downers Grove, IL:

(supporting motion to recommend) Several already have called into question some of the

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language of this resolution. The answer to the question about "good faith" seems to indicate that the doctrine of *Mason v. Hepburn* no longer applies. I do not recall that being overruled by the Federal Circuit. In addition the resolution makes reference to "shall not be liable as an infringer of subject matter in a patent" and in another place talks about not being an infringer of "such patented subject matter." There is a big difference between subject matter in the patent and patented subject matter.

Alan Gordon from Houston, Texas then moved to call the question and close debate on the motion to recommit. The motion was passed. Subsequently, the motion to recommit Resolution 102-7 was defeated by a vote of 38 to 46.

Jack C. Goldstein, Houston, TX:

(proposing an amendment) In line 10, after the word "person" insert the words "is also an inventor of the subject matter and." The purpose of course is to make sure that a deliver cannot have a prior user right and to try to eliminate the ambiguity or vagueness of "acting in good faith." At least it will have to be an original inventor who is acting in good faith.

Edward G. Florito, Dallas, TX:

(opposing the amendment) The amendment would make the prior user right much too narrow. In order to have an effective prior user right and to protect people who don't intend to file, we can't make them prove up that they were an inventor. This right should be broad enough to protect the industry that chooses to use something to keep that trade secret, to keep it not as a trade secret but to keep it for themselves or for the public to use but not to have to prove up that they are an inventor. This would be much too narrow to be a permissible prior user right in the context of first-to-file. If we are going to have first-to-file, we need to have a broad enough prior user right to keep our industry going.

Gary Griswold, St. Paul, MN:

(opposing the amendment) The purpose can be accomplished—if that's the concern—by adding the words "but not derived from" somewhere in this resolution. I believe the Advisory Commission did that. Using a concept of inventor brings in a whole different set of issues.

Jack C. Goldstein, Houston, TX:

(closing debate on the amendment) Mr. Florito is suggesting if someone wants to protect something as a trade secret that he should have a prior user right and I am not disagreeing with that. But if he has derived subject matter from the inventor, that would not

quality him as a prior user. This would not preclude someone from acquiring, by transfer with the entire essence of business, a prior user right from someone before who was also an inventor. It seems to me that it is fundamentally unsound to grant prior user rights. The basic reason that I have heard for giving prior user rights is for the poor first inventor who is second to file. We don't want to shut him out and that is the main impetus behind prior user rights. Now all of a sudden we're putting language in that goes far beyond the first inventor.

Gary L. Griswold, St. Paul, MN:

(opposing the amendment) We have debated this issue before—the concept of inventor versus the concept "not derived from." They are distinctly different concepts. It is very important in my opinion to use "not derived from." If you want to get away from this problem but not get into the concept of who was also an inventor.

William S. Thompson, Peoria, IL:

(opposing the amendment) Basically one could be obtaining an idea from two very distinct sources. One source being the inventor who published under a grace period and subsequently filed a patent application. Another source might be from some other direction; from somebody who has published the same idea, has no intention or has not filed a patent application on it, and has been free in the domain. The amendment says that you cannot use what is free in the domain, not subject to anybody's intentions to file patents on it. So it goes too far. While I think that the sense of the amendment—that good faith could be limited to people who don't derive it from the inventor of the patent in question—would be a reasonable amendment, the one that's on the floor is too sweeping.

Robert Savage, Palo Alto, CA:

(supporting the amendment) The amendment crystallizes the debate and gives us another position, another reference frame, to obtain some sort of advancement of prior user rights, which isn't as sweeping as some of the proposals.

Howard MacCord, Greensboro, NC:

(supporting the amendment) I oppose the resolution as a whole, but I feel that the amendment brings it somewhat more in line. I find the remarks regarding a person who derives from public domain a little curious. If that public domain renders the invention obvious, then the patent is no good anyway. I don't see that derivation from the public domain is necessarily a specific source for a prior user right. It seems to me that if there is

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a prior user, either they thought it up or they derived it from somebody. If that somebody is the patentee, he has no right to use it. If he thought of it himself, then presumably he would have a prior user right. In addition, the language here would permit a second inventor to be given the prior user right because all he has to do is prove that he was one day before the filing date.

A vote on the motion to amend was then taken and the amendment failed by a vote of 40 to 51.

Gary Griswold, St. Paul, MN:

(proposing an amendment) In line 10, after the word "person" add "has not derived the subject matter of the patent from the patentee and." Then, at the end of the resolution, add "and the Section hereby rescinds any past resolutions to the contrary." The first amendment concerns the question of whether or not the prior user can derive the subject matter from the person that gets the patent and specifically says they cannot and is consistent with the proposed legislation. The second amendment is just to clear up the record to make certain that if there is past action that is inconsistent with that principle, we are rescinding it.

The amendments were accepted by the Committee Chair, Mr. Meller.

Robert L. Rohrback, Mt. Prospect, IL:

(proposing an amendment) Following the first amendment just accepted, delete the word "and" and add "or a person who is either the first inventor as presently defined in 35 U.S.C. 102(g) or one who." The purpose of the amendment is to ensure that the first inventor of the subject matter is able to use his own invention and is not completely shut out by a subsequent inventor merely because that first person was unable to win the race to the Patent Office for such things as lack of funds or for any other legitimate purpose. That is a matter of equity which this Section should stand for.

William S. Thompson, Peoria, IL:

(opposing the amendment) The amendment is convoluted and appears to be redundant. There is a requirement that the invention be made prior to the filing which is part of the 102(g) requirement and if anyone complies with the broader definition that is in the resolution, they also comply under 102(g). It seems unnecessary.

Karl Jorda, Concord, NH:

(opposing the amendment) I think a prior user right essentially is for the benefit of a trade secret owner and this would preclude a trade secret owner from benefitting from a prior user right.

Thomas E. Fisher, Cleveland, OH:

(supporting the amendment) The amendment is adding an alternative. It is adding an additional basis for a prior user right and will not affect anything that was already in the resolution. As far as other comments made, one can be the first effective inventor and not have made effective and serious preparation therefor. So that language too is an alternative—an additional right.

William T. Fryer, III, Baltimore, MD:

(opposing the amendment) It unduly complicates the determination of prior user rights. It retains an area of law which we would not have except for the particular provision—the 102(g) concept. I know of no parallel in any country.

William J. Brunet, New York, NY:

(supporting the amendment) This is the only way that we can protect a company or an individual who is continuously working on developing the invention. Because the lawyer for another person on a parallel track happens to decide earlier in the development that he wants to run to the Patent Office, the other original inventor should not be precluded from continuing with his experimentation and perfecting his invention and its improvements. I'm a little concerned with the dilution of the inventor's rights and, frankly, think the second amendment is better than the first part of the resolution.

Gary Griswold, St. Paul, MN:

(opposing the amendment) I oppose the amendment for the reasons given by Mr. Fryer.

Thomas E. Smith, Chicago, IL:

(supporting the amendment) There are a lot of people that don't believe in the patent system. As much as we may not like it, I think we have to accommodate them. If they are going to make the invention and proceed, albeit slowly, they should be protected. A person that has invented it first should be protected and should be able to use that invention.

George R. Clark, Downers Grove, IL:

(supporting the amendment) We are talking about patent laws. The resolution unamended would be protecting trade secrets and abandoning the patent system. I think the amendment is very much in order and should be supported by anyone in favor of the patent system.

The proposed amendment was then voted upon and passed by a show of hands.

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Robert L. Rohrback, Mount Prospect, IL:
(proposing an amendment) In line 7, after the word "business" insert "or in instances where such rights have been acquired by a nonbusiness entity." The purpose of this amendment is to make the right to transfer applicable to individual inventors who may have performed precisely the same acts as a business inventor who is wealthy enough to own his own business. Certainly it is not in the interest of equity to foreclose an individual inventor, who has no business, from the right to transfer a prior user right which may have accrued to him through his activities.

The amendment was then voted upon and approved by voice vote.

Robert L. Rohrback, Mount Prospect, IL:
(proposing an amendment) In line 10, after the word "faith" insert "and who has not abandoned, suppressed, or concealed such subject matter." The purpose of the amendment is to deny prior user rights to a person who has deliberately suppressed, concealed, or abandoned the subject matter. For example, let us suppose that someone, five years before our patentee has filed his patent application, has performed acts which amount to effective and serious preparation for commercialization. Then after seeing that the patentee has made something quite successful and quite commercially attractive, now claims prior user rights. That does not seem fair. Additionally, I do not see why a person who has distained use of the patent system in order to maintain a trade secret for the purpose of extending his monopoly or his trade secret rights, should now come in and ask the patent system to protect him from the adverse consequences flowing from a legitimate business decision. I believe he should suffer the consequences of a poor decision, if that happens to be the case, just as he would under the present patent law if he disdains use of the patent system.

William S. Thompson, Peoria, IL:
(moving to reconsider motion to recommit) I think we have a substantially different resolution with many new thoughts that need to be reflected upon and debated.

William T. Fryer, III, Bethesda, MD:
(supporting motion to recommit) I think we need to think more about the concept of secret commercial use and what impact that has and we need to develop that point further. What we have done here today is useful. We have given people some very good, constructive comments.

Mark T. Banner, Chicago, IL:
(supporting motion to recommit) The amendments made are substantial issues that should be brought to the membership in forms other than by amendments. This includes rescinding certain unspecified past actions. I think a good solid committee study is in order and the resolution should be recommitted.

George R. Clark, Downers Grove, IL:
(supporting motion to recommit) Another issue that should be looked at is inconsistent language in lines 8 and 9 where reference is made to an "infringer of subject matter in a patent," and lines 12 and 13 where "of such patented subject matter" appears. There is a great difference between the two.

Tom Arnold, Houston, TX:
(supporting motion to recommit) In addition to the points already made, it is my opinion that we have not considered exactly what prior user rights do to our patent system. We have been arguing over whether to have first-to-file. Let us assume that we do. Now, what do prior user rights do for us? One would be to give some protection to the first inventor, the real first inventor. The second would be to protect the innocent or, we might say, the ignorant party who is also an inventor or one who has not derived. We have a very real issue here as to whether commercial secret use, as brought up in the *W.L. Gore v. Carlock* case, how we should deal with that. All those reasons sound good—protecting the first inventor, protecting the person who is also an inventor although not the first. But is that good for an incentive to make the investment to invent? The patent system has always been based on exclusivity.

Daniel D. Fetterley, Milwaukee, WI:
(opposing motion to recommit) I think the problem here is that we are taking the wrong approach. We are submersing ourselves in a myriad of details that many of us have not thought through, do not fully understand. What I would propose is to retain the question on the floor, defeat the motion that is presently before us, and adopt a very straightforward amendment dealing with prior user rights.

Mr. Fetterley's comments were ruled out of order. Discussion returned to the motion to recommit.

Donald W. Banner, Washington, DC:
(supporting motion to recommit) There are many things we haven't thought about. For instance "commercially sold in the United States." Certainly that doesn't mean bought

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in France, bring it to the U.S. and sell it and get a prior user right. My major problem, however, is that Section members were not informed that the resolution was going to be discussed at this meeting. A mailing to the members, enclosing a listing of the full text of all resolutions submitted, indicated that complete information on the meeting was enclosed. That statement was inaccurate in that this particular resolution was not included, although it had been submitted to Council before that letter was written. In an attempt to correct this error, the Chair sent a later letter to the members. However, that letter did not get to the members until just a couple of days before the meeting. The resolution should be recommitted to a later meeting when all of the members of the Section know what it is that we are going to be talking about.

Douglas W. Wyatt, New York, NY:

(supporting motion to recommit) To me the basic reason is that we don't have anything but a superficial report on what a prior user right is. One thing that should be explored in any committee report is a study of those countries that have first-to-file without prior user rights. Canada adopted a first-to-file system and in their wisdom decided that they would not have prior user rights. I have seen no discussion of their experience. There are other countries—the Dutch have first-to-file without prior user rights. A number of people have said that we cannot have first-to-file without prior user rights. There are, in fact, countries that do. In Italy the prior user right is limited to the amount of production you have on the day the patent issues. I see nothing but a superficial study and I suggest further study be done.

William E. Schuyler, Jr., Washington, DC:

(opposing motion to recommit) I certainly don't want to oppose the motion to recommit on something as complicated as this, but I believe the Section is presently in the posture of favoring a first-to-file system and opposing prior user rights as set forth in the past action. If that's the position the Section is going to be in, I think it may be disastrous.

The motion to recommit Resolution 102-7 was then voted upon and passed by a voice vote.

Resolution 102-8 was submitted to the Resolutions Committee by Section members Donald R. Dunner, Ronald E. Myrick and William S. Thompson. It was assigned the number 102-8 by the Resolutions Committee to be considered with, but prior to, the resolutions submitted by Committee 102.

Ronald E. Myrick, Maynard, MA:

(presenting Resolution 102-8) In essence, 102-8 is a housekeeping matter. 1991 Resolution 102-1 was debated extensively and passed by a vote of 86 to 19. Later, we found that back in 1967 a resolution adopted by the ABA was in apparent conflict with 1991 102-1. The resolution now before us is for the purpose of aligning the ABA's position with the Section's current view—certainly a much more current view than 1967. In the debate last year there were proponents who certainly held perhaps a different view from what 102-1 ultimately espoused. There were opponents who desired to go no further than the previous Section resolution of 1987. But 102-1 did pass, and it is time to ensure that we have a clear message from the ABA consistent with the Section's view for the future. The 1967 resolution was discovered while 102-1 was working its way through the ABA procedures for blanket authority. 102-1 was eventually ruled upon by Bob Evans of the ABA Governmental Affairs Office as being inconsistent with the 1967 position. Although the 1967 resolution is historically and contextually important, it is something that was passed quite a long time ago, and we now have the benefit at this time of what the Section did just a year ago.

Michael N. Meller, New York, NY:

(speaking in support) The resolution is in a sense a housekeeping resolution to put us back where we were a year ago. Indeed five years ago. What it does is to tell the U.S. Government that we are willing to offer our first-to-invent system if we get beneficial results back from the rest of the world. If we do not pass this resolution, we have nothing to say to the rest of the world. We might as well save our money and not negotiate any further. A large majority of this Association has repeatedly agreed with this resolution—in 1987 and in 1991. Here we are arguing it again. An old resolution was found, which by everything right and just should have been under a sunset provision and not brought up before this new generation of American lawyers who want to adjust their system to make it compatible with that of the rest of the world. We have to deal with the rest of the world. We have to be a trading nation. We have only one thing to offer, and that is our first-to-invent system, provided we get beneficial results. I am not in favor of first-to-file without anything. There are some who are. But without first-to-file we have nothing to offer. Let's adopt this resolution and make it an ABA position.

Senator DECONCINI. I suppose you are aware of that, Mr. Griswold?

Mr. GRISWOLD. Yes, I am.

Senator DECONCINI. If you are aware of any other such resolutions, we would sure like to file them in the record.

Mr. BUDINGER. As I said, Senator, the section has considered the prior user right in connection with a first to file system, because in a first to file system—which is what we have in these other countries which have this, by the way—it is almost necessary to have a prior user right. Canada has first to file but does not have a prior user right, for example. But it is necessary because in the first to file system, the paper shuffler goes first and gets the patent, and he has the right to enforce it against somebody, even though that somebody might be using it.

Senator DECONCINI. I'm glad to have that clarification. However, the resolution in 1982 is not specific as to first to file. So the Bar Association—certainly, the section—has certainly changed its position from 1968 in its 1982 resolution, and then again supported it as part of first to file, and now the council has reversed that by coming out in opposition.

Thank you very much for your testimony.

[Whereupon, at 11:38 a.m., the subcommittee adjourned, to reconvene at the call of the chair.]

APPENDIX

PROPOSED LEGISLATION

11

103D CONGRESS
2D SESSION

S. 2272

To amend chapter 28 of title 35, United States Code, to provide a defense to patent infringement based on prior use by certain persons, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 1 (legislative day, JUNE 7), 1994

Mr. DECONCINI (for himself and Mr. BIDEN) introduced the following bill; which was read twice and referred to the Committee on the Judiciary

A BILL

To amend chapter 28 of title 35, United States Code, to provide a defense to patent infringement based on prior use by certain persons, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Patent Prior User
5 Rights Act of 1994”.

1 SEC. 2. DEFENSE TO PATENT INFRINGEMENT BASED ON
2 PRIOR USE.

3 (a) IN GENERAL.—Chapter 28 of title 35, United
4 States Code, is amended by adding at the end thereof the
5 following new section:

6 “§ 273. Rights based on prior use; defense to infringe-
7 ment

8 “(a) DEFINITIONS.—For purposes of this section, the
9 term—

10 “(1) ‘commercially used’ means the use in
11 interstate or intrastate commerce, including the use
12 of processes, equipment, tooling, and intermediate
13 materials in the design, testing or production of
14 commercial products whether or not such processes,
15 equipment, tooling, and intermediate materials are
16 normally accessible, available, or otherwise known to
17 the public;

18 “(2) ‘effective and serious preparation’ means
19 that a person, in the United States, has—

20 “(A) reduced to practice the subject matter
21 for which rights based on prior use are claimed;
22 and

23 “(B) made serious plans, and a substantial
24 investment or much of the investment necessary
25 for the subject matter to be commercially used;
26 and

1 “(3) ‘critical date’ means the filing date or the
2 priority date, whichever occurs first, of the applica-
3 tion for patent.

4 “(b) IN GENERAL.—A person shall not be liable as
5 an infringer under a patent granted to another with re-
6 spect to any subject matter claimed in the patent that
7 such person had, acting in good faith, commercially used
8 in the United States or made effective and serious prepa-
9 ration therefor in the United States, before the critical
10 date.

11 “(c) LIMITATION OF DEFENSE.—Subject to sub-
12 section (d), rights based on prior use under this section
13 extend only to the claimed invention that the person claim-
14 ing rights based on prior use was in possession of prior
15 to the critical date.

16 “(d) CERTAIN VARIATIONS AND IMPROVEMENTS NOT
17 AN INFRINGEMENT.—The rights based on prior use under
18 this section shall include the right to make and use vari-
19 ations or improvements, including variations in the quan-
20 tity or volume of such use. Such variations or improve-
21 ments may not infringe additional claims of the patent.

22 “(e) QUALIFICATIONS.—(1) The rights based on
23 prior use under this section are personal and shall not be
24 licensed or assigned or transferred to another except in

1 connection with the assignment or transfer of the entire
2 business or enterprise to which the rights relate.

3 “(2) A person may not claim rights based on prior
4 use under this section if the activity under which such per-
5 son claims the rights was—

6 “(A) based on information obtained or derived
7 from the patentee or those in privity with the pat-
8 entee; or

9 “(B) abandoned on or after the critical date,
10 except that for abandonment which occurs after the
11 critical date, rights based on prior use may be used
12 as a defense to infringement for that period of activ-
13 ity which occurred prior to abandonment if such ac-
14 tivity would otherwise, in the absence of abandon-
15 ment, have been allowed under this section.

16 “(3) The rights based on prior use under this section
17 are not a general license under all claims of the patent,
18 but are restricted in scope to cover only that subject mat-
19 ter claimed in the patent that has been commercially used,
20 or for which there has been effective and serious prepara-
21 tion, in the United States, before the critical date.

22 “(f) BURDEN OF PROOF.—In any action in which a
23 person claims a defense to infringement under this section
24 the burden of proof for establishing the defense shall be
25 on the person claiming rights based on prior use.”

1 (b) TECHNICAL AND CONFORMING AMENDMENT.—
2 The table of sections for chapter 28 of title 35, United
3 States Code, is amended by adding at the end thereof the
4 following:

“273 Rights based on prior use, defense to infringement”.

5 **SEC. 3. EFFECTIVE DATE.**

6 The provisions of this Act and the amendments made
7 by this Act shall take effect on the date of the enactment
8 of this Act.



103D CONGRESS
2D SESSION

S. 2341

To amend chapter 30 of title 35, United States Code, to afford third parties an opportunity for greater participation in reexamination proceedings before the United States Patent and Trademark Office, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 29 (legislative day, JULY 20), 1994

Mr. DECONCINI introduced the following bill; which was read twice and referred to the Committee on the Judiciary

A BILL

To amend chapter 30 of title 35, United States Code, to afford third parties an opportunity for greater participation in reexamination proceedings before the United States Patent and Trademark Office, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Patent Reexamination
5 Reform Act of 1994”.

1 **SEC. 2. DEFINITIONS.**

2 Section 100 of title 35, United States Code, is
3 amended by adding at the end thereof the following new
4 subsection:

5 “(e) The term ‘third-party requester’ means a person
6 requesting reexamination under section 302 of this title
7 who is not the patent owner.”.

8 **SEC. 3. REEXAMINATION PROCEDURES.**

9 (a) REQUEST FOR REEXAMINATION.—Section 302 of
10 title 35, United States Code, is amended to read as fol-
11 lows:

12 **“§ 302. Request for reexamination**

13 “Any person at any time may file a request for reex-
14 amination by the Office of a patent on the basis of any
15 prior art cited under the provisions of section 301 of this
16 title or on the basis of the requirements of section 112
17 of this title except for the best mode requirement. The
18 request must be in writing and must be accompanied by
19 payment of a reexamination fee established by the Com-
20 missioner of Patents and Trademarks pursuant to the pro-
21 visions of section 41 of this title. The request must set
22 forth the pertinency and manner of applying cited prior
23 art to every claim for which reexamination is requested
24 or the manner in which the patent specification or claims
25 fail to comply with the requirements of section 112 of this
26 title. Unless the requesting person is the owner of the pat-

ent, the Commissioner promptly will send a copy of the request to the owner of record of the patent.”.

(b) DETERMINATION OF ISSUE BY COMMISSIONER.—

Section 303 of title 35, United States Code, is amended to read as follows:

“§ 303. Determination of issue by Commissioner

“(a) Within three months following the filing of a request for reexamination under the provisions of section 302 of this title, the Commissioner will determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request, with or without consideration of other patents or printed publications. On his own initiative, and at any time, the Commissioner may determine whether a substantial new question of patentability is raised by patents and publications discovered by him or cited under the provisions of section 301 of this title or by the failure of the patent specification or claims to comply with the requirements of section 112 of this title except for the best mode requirement.

“(b) A record of the Commissioner’s determination under subsection (a) of this section will be placed in the official file of the patent, and a copy promptly will be given or mailed to the owner of record of the patent and to the third-party requester, if any.

1 “(c) A determination by the Commissioner pursuant
 2 to subsection (a) of this section will be final and
 3 nonappealable. Upon a determination that no substantial
 4 new question of patentability has been raised, the Com-
 5 missioner may refund a portion of the reexamination fee
 6 required under section 302 of this title.”.

7 (e) REEXAMINATION ORDER BY COMMISSIONER.—
 8 Section 304 of title 35, United States Code, is amended
 9 to read as follows:

10 **“§ 304. Reexamination order by Commissioner**

11 “If, in a determination made under the provisions of
 12 section 303(a) of this title, the Commissioner finds that
 13 a substantial new question of patentability affecting any
 14 claim of a patent is raised, the determination will include
 15 an order for reexamination of the patent for resolution of
 16 the question. The order may be accompanied by the initial
 17 Office action on the merits of the reexamination conducted
 18 in accordance with section 305 of this title.”.

19 (d) CONDUCT OF REEXAMINATION PROCEEDINGS.—
 20 Section 305 of title 35, United States Code, is amended
 21 to read as follows:

22 **“§ 305. Conduct of reexamination proceedings**

23 “(a) Subject to subsection (b) of this section, reexam-
 24 ination will be conducted according to the procedures es-
 25 tablished for initial examination under the provisions of

1 sections 132 and 133 of this title. In any reexamination
2 proceeding under this chapter, the patent owner will be
3 permitted to propose any amendment to the patent and
4 a new claim or claims thereto in response to a decision
5 adverse to the patentability of a claim of a patent. No
6 proposed amended or new claim enlarging the scope of the
7 claims of the patent will be permitted in a reexamination
8 proceeding under this chapter.

9 “(b)(1) This subsection shall apply to any reexamina-
10 tion proceeding in which the order for reexamination is
11 based upon a third-party reexamination request.

12 “(2) Any document (other than the reexamination re-
13 quest) filed in a reexamination proceeding by either the
14 patent owner or the third-party requester shall be served
15 on any other party.

16 “(3)(A) If the patent owner files a response to any
17 Office action on the merits, the third-party requester may
18 once file written comments within a reasonable period. At
19 a minimum, such comments may be filed within 1 month
20 after the date of service of the patent owner's response.

21 “(B) Comments filed under this paragraph shall be
22 limited to issues covered by the Office action or the patent
23 owner's response.

24 “(c) Unless otherwise provided by the Commissioner
25 for good cause, all reexamination proceedings under this

1 section, including any appeal to the Board of Patent Ap-
2 peals and Interferences, will be conducted with special dis-
3 patch within the Office.”.

4 (c) APPEAL.—Section 306 of title 35, United States
5 Code, is amended to read as follows:

6 **“§ 306. Appeal**

7 “(a) The patent owner involved in a reexamination
8 proceeding under this chapter may—

9 “(1) appeal under the provisions of section 134
10 of this title, and may appeal under the provisions of
11 sections 141 through 144 of this title, with respect
12 to any decision adverse to the patentability of any
13 original or proposed amended or new claim of the
14 patent; or

15 “(2) be a party to any appeal taken by a third-
16 party requester under subsection (b) of this section.

17 “(b) A third-party requester may—

18 “(1) appeal under the provisions of section 134
19 of this title, and may appeal under the provisions of
20 sections 141 through 144 of this title, with respect
21 to any final decision favorable to the patentability of
22 any original or proposed amended or new claim of
23 the patent; or

24 “(2) be a party to any appeal taken by the pat-
25 ent owner, subject to subsection (c) of this section.

1 “(e) A third-party requester who files a notice of ap-
2 peal or who participates as a party to an appeal by the
3 patent owner under the provisions of sections 141 through
4 144 of this title is estopped from later asserting, in any
5 forum, the invalidity of any claim determined to be patent-
6 able on appeal on any ground which the third-party re-
7 quester raised or could have raised during the reexamina-
8 tion proceedings. A third-party requester is deemed not
9 to have participated as a party to an appeal by the patent
10 owner unless, within twenty days after the patent owner
11 has filed notice of appeal, the third-party requester files
12 notice with the Commissioner electing to participate.”.

13 (f) REEXAMINATION PROHIBITED.—(1) Chapter 30
14 of title 35, United States Code, is amended by adding the
15 following section at the end thereof:

16 “§ 308. **Reexamination prohibited**

17 “(a) Notwithstanding any provision of this chapter,
18 once an order for reexamination of a patent has been is-
19 sued under section 304 of this title, neither the patent
20 owner nor the third-party requester, if any, nor privies of
21 either, may file a subsequent request for reexamination
22 of the patent until a reexamination certificate is issued
23 and published under section 307 of this title, unless au-
24 thorized by the Commissioner.

1 “(b) Once a final decision has been entered against
 2 a party in a civil action arising in whole or in part under
 3 section 1338 of title 28 that the party has not sustained
 4 its burden of proving the invalidity of any patent claim
 5 in suit, then neither that party nor its privies may there-
 6 after request reexamination of any such patent claim on
 7 the basis of issues which that party or its privies raised
 8 or could have raised in such civil action, and a reexamina-
 9 tion requested by that party or its privies on the basis
 10 of such issues may not thereafter be maintained by the
 11 Office, notwithstanding any provision of this chapter.”.

12 (2) The table of sections for chapter 30 of title 35,
 13 United States Code, is amended by adding the following
 14 at the end thereof:

“308. Reexamination prohibited.”

15 **SEC. 4. CONFORMING AMENDMENTS.**

16 (a) BOARD OF PATENT APPEALS AND INTER-
 17 FERENCES.—The first sentence of section 7(b) of title 35,
 18 United States Code, is amended to read as follows: “The
 19 Board of Patent Appeals and Interferences shall, on writ-
 20 ten appeal of an applicant, or a patent owner or a third
 21 party requester in a reexamination proceeding, review ad-
 22 verse decisions of examiners upon applications for patents
 23 and decisions of examiners in reexamination proceedings,
 24 and shall determine priority and patentability of invention

1 in interferences declared under section 135(a) of this
2 title.”.

3 (b) PATENT FEES; PATENT AND TRADEMARK
4 SEARCH SYSTEMS.—Section 41(a)(7) of title 35, United
5 States Code, is amended by inserting “or for an uninten-
6 tionally delayed response by the patent owner in a re-ex-
7 amination proceeding,” after “issuing each patent,”.

8 (c) APPEAL TO THE BOARD OF PATENT APPEALS
9 AND INTERFERENCES.—Section 134 of title 35, United
10 States Code, is amended to read as follows:

11 **“§ 134. Appeal to the Board of Patent Appeals and**
12 **Interferences**

13 “(a) An applicant for a patent, any of whose claims
14 has been twice rejected, may appeal from the decision of
15 the primary examiner to the Board of Patent Appeals and
16 Interferences, having once paid the fee for such appeal.

17 “(b) A patent owner in a reexamination proceeding
18 may appeal from the final rejection of any claim by the
19 primary examiner to the Board of Patent Appeals and
20 Interferences, having once paid the fee for such appeal.

21 “(c) A third-party requester may appeal to the Board
22 of Patent Appeals and Interferences from the final deci-
23 sion of the primary examiner favorable to the patentability
24 of any original or proposed amended or new claim of a
25 patent, having once paid the fee for such appeal.”.

1 (d) APPEAL TO COURT OF APPEALS FOR THE FED-
2 ERAL CIRCUIT.—Section 141 of title 35, United States
3 Code, is amended by amending the first sentence to read
4 as follows: “An applicant, a patent owner or a third-party
5 requester, dissatisfied with the final decision in an appeal
6 to the Board of Patent Appeals and Interferences under
7 section 134 of this title, may appeal the decision to the
8 United States Court of Appeals for the Federal Circuit.”.

9 (e) PROCEEDINGS ON APPEAL.—Section 143 of title
10 35, United States Code, is amended by amending the third
11 sentence to read as follows: “In ex parte and reexamina-
12 tion cases, the Commissioner shall submit to the court in
13 writing the grounds for the decision of the Patent and
14 Trademark Office, addressing all the issues involved in the
15 appeal.”.

16 **SEC. 5. EFFECTIVE DATES.**

17 (a) IN GENERAL.—Sections 2 and 4 and subsections
18 (a), (b), (c), (d), and (e) of section 3 of this Act shall
19 take effect six months after the date of enactment of this
20 Act and shall apply to all reexamination requests filed on
21 or after such effective date.

22 (b) REEXAMINATION PROHIBITION PROVISION.—
23 Section 1 and subsections (f) and (g) of section 3 of this
24 Act shall take effect on the date of enactment of this Act.

ADDITIONAL SUBMISSIONS FOR THE RECORD

AMERICAN BAR ASSOCIATION,
SECTION OF INTELLECTUAL PROPERTY LAW,
Chicago, IL, August 18, 1994.

Hon. DENNIS DECONCINI,
*Chairman, Judicial Subcommittee on
Patents, Copyrights and Trademarks,
U.S. Senate, Hart Senate Office Building,
Washington, DC.*

DEAR SENATOR DECONCINI: We wish to place of record the position of the American Bar Association ("ABA") in opposition to S. 2272, the Patent Prior User Rights Act of 1994, a bill which is inconsistent with the present United States patent system which rewards those who are first to invent. The bill would reward and give priority to trade secret users at the expense of prior inventors, particularly those who cannot afford to file patent applications or speculation. Absolving prior users who are not prior inventors from patent infringement, would make patent rights more uncertain and less valuable.

The ABA is a voluntary, national membership organization of the legal profession. The more than 360,000 members of the ABA come from every state and territory and the District of Columbia. The Section of Intellectual Property Law ("Section") of the ABA includes over 13,000 ABA members interested and having expertise in Intellectual Property Law. Over a period of many years, the ABA and the Section have contributed to the development of a system for protection of intellectual property and thereby advance the technological development of our nation. Many members of the Section practice in the field of patent law, representing patent owners and other persons in businesses affected by patents.

The ABA believes that the issues presented in S. 2272 are of significant importance to the patent system and to the technological development of our nation. The following resolution sets forth the existing policy of the ABA:

RESOLVED that the American Bar Association disapproves in principle changing the present law to give a party the right to continue the practice of an invention in the United States if he had begun commercial manufacture, or sale in the United States, or had made substantial preparation for the practice of the invention in the United States prior to the earlier of the patentee's effective filing date or first public disclosure * * *

That policy has been in existence since 1968, and on August 5, 1994, the Section reaffirmed its support for the ABA policy by adopting a resolution which "opposes in principle granting prior user rights to a person who has used the invention as a trade secret in a way so as to have suppressed or concealed the invention under § 102(g), Title 35 USC, and specifically opposes S. 2272 * * * in its current form or equivalent legislation."

The United States patent system is a first-to-invent system and prior user rights of the type provided in S. 2272 are totally inconsistent with that type of a system. While prior user rights are widely recognized throughout the world, they are only recognized in conjunction with first-to-file patent systems. In a first-to-file system, the only "critical date" is the filing date. In this country, under a first-to-invent system, the "critical date" is the *invention date*, a date not mentioned or recognized in S. 2272. That bill, if enacted, would not benefit prior inventors. Rather it would erode the rights of first inventors and detract from the value of patents by rewarding trade secret users and those who can afford to file early on speculation. The bill recognizes only two events, (1) the effective filing date, and (2) commercial use or preparation. It thus rewards those who can afford to be either early filers or early trade secret users at the expense of those who cannot afford either. In the United States, most inventions are made by independent inventors and employees of small companies. When an invention is made by an independent inventor or an employee of a small or medium size company, before spending money to file a patent application, most want to find out (1) whether the invention will work, (2) whether the invention can be improved upon, and (3) whether the invention is of commercial value.

Until these matters can be determined, the company's exclusive rights are protected by our first-to-invent patent system. S. 2272 would take those rights away, at least to the extent that another company comes in and proceeds to commercialize, or make plans to commercialize the invention. Indeed, under the provisions of S. 2272, the first inventor could have invented and even commercially used his invention but would not be able to prevent the infringement by another company who, without derivation, began commercialization after the first inventor's invention date, and perhaps after commercialization by the first inventor, but before the first inventor files his patent application. S. 2272 by placing an undue premium on early patent filing or early commercial use (or preparation for use) in effect tells inventors that whether they can afford it or not they had better act as if they were operating under a first-to-file patent system, even though the present United States patent system is a first-to-invent system. This type of prior user right which fails to recognize a first inventor's rights is incompatible and even antagonistic to our present first-to-invent system which protects individual inventors and small to medium size companies.

Large companies with substantial patent portfolios in first-to-file foreign countries already consider themselves to be operating under a first-to-file system, and a first-to-file system clearly favors big companies with deep pockets who can more quickly determine the value of an invention or who can most afford to file on speculation. Small companies can't do that, and independent inventors have to find prospective users before they can afford to file on their inventions. Since S. 2272 favors only those who are earliest to file or earliest to commercialize, it favors large companies and gives those companies even greater advantage over their smaller competitors. It is, thus, understandable that large companies support S. 2272 and even support a first-to-file system, regardless of whether it comes with any concessions from foreign countries. If the United States is ultimately to adopt a first-to-file system, it should be with substantial concessions from foreign countries, and if we, by providing an undue premium on early filing and thereby in effect place the United States on a first-to-file system with a bill such as S. 2272, we are giving away the biggest and best bargaining chip the United States has.

Mention should be made of a 1982 Section resolution which favored, in principle, legislation providing an *in personam* right, or right of prior public user, to the first inventor who elects to keep his invention a trade secret, and further provides that the patent on the same invention, which was independently discovered by a subsequent inventor, shall not be held invalid based upon the trade secret public use of the first inventor. In 1982, the membership of the Section was not told of the prior resolution of the ABA. Moreover, that 1982 resolution was directed to legislation which provided an *in personam* right to the *first inventor* who commercialized, not just a right to *anyone* who came along to commercialize the invention, as S. 2272 would do. In other words, the 1982 resolution of the Section recognized and expanded the first inventor's rights; it *did not give rights to others who may have begun commercialization before the inventor filed his application*. That resolution was completely consistent with our first-to-invent patent system. The 1968 resolution of the ABA specifically opposes legislation, such as S. 2272, which only recognizes either the effective filing date of the patentee or the commercial use or preparation by the infringer. In contrast, the 1982 resolution of the Section recognizes only the prior inventor who is a prior public user. That 1982 resolution, by recognizing first inventor's rights, is totally consistent with a first-to-invent patent system and has nothing to do with the provision of S. 2272 under which first inventor's rights are ignored and only the effective filing date of the patentee and the date of commercial use of the infringer are important.

S. 2272 would make patent litigation more expensive by opening up a whole new defense to patent infringement, and it would make patent filing more expensive by placing a premium on including in the application additional claims of varying scope in an effort to limit the right of the prior user to make later improvements and variations under the protective umbrella of the rights given under S. 2272.

S. 2272 would, in effect, turn our present first-to-invent system on its ear. It is totally inconsistent with a first-to-invent system. The ABA policy adopted in 1968, and reiterated by the Section in 1994, clearly opposes this type of legislation, which would do significant damage to the U.S. patent system.

Sincerely,

THOMAS E. SMITH,
Chair.

BANNER, BIRCH, MCKIE & BECKETT,
Washington, DC, August 16, 1994.

Hon. DENNIS DECONCINI,
Chairman, Judicial Subcommittee on
Patents, Copyrights and Trademarks,
U.S. Senate, Hart Senate Office Building,
Washington, DC.

DEAR SENATOR DECONCINI: This letter relates to the hearing held August 9, 1994 on the Patent Prior User Rights Acts of 1994, S. 2272. At the conclusion of that hearing you will recall that you questioned my statement that universities had not endorsed that legislation, and you indicated your belief that the Association of University Technology Managers (AUTM), representing the universities of this country, had endorsed it.

On the following day, I received a copy of a letter to you dated August 10, 1994 from William Hostetler, President of the Association of University Technology Managers. Mr. Hostetler, in his opening paragraph of that letter, said "It has come to my attention that, during the August 9, 1994 Senate hearing on Prior User Rights Legislation, the impression was given that the Association of University Technology Managers (AUTM) and, Universities endorse the Prior User Rights Legislation being proposed." He indicated that his organization "consists of individual memberships not institutional memberships. AUTM's position is not necessarily the position of the majority of the United State's Universities."

He concluded his letter with the statement that: "I would appreciate your setting the record straight if the impression was given that AUTM endorses the Prior User Rights Legislation. We do not endorse it."

I have also received a copy of a letter dated August 10, 1994 to you from the Purdue Research Foundation. That letter also refers to the impression given at the August 9, 1994 hearing that AUTM and U.S. universities endorse the prior user rights legislation. The Purdue Research Foundation letter, written by Teri F. Willey, states: "I am a university licensing professional and an AUTM Board of Trustees member and I clearly do not endorse this bill. It is my view that there should not be any form of Prior User Rights." The letter concludes with the statement: "Accordingly, for the record, please know that I do not endorse the Prior User Rights legislation and believe that it is detrimental to the effort of commercializing federal funded research results."

Copies of both of those letters are attached. I believe they affirm the accuracy of my statement at the August 9th hearing.

Near the conclusion of those hearings, there was a suggestion by a member of the panel that the Section of Patent, Trademark and Copyright Law of the American Bar Association had approved a resolution in 1982 contrary to the 1968 resolution of the House of Delegates of the American Bar Association, which broadly opposed prior user rights of the type which would be created by S. 2272.

The 1982 resolution, in pertinent part, states that "the Section favors in principle legislation providing an *in personam* right or right of prior public user to the first inventor who elects to keep his invention a trade secret"* * * Therefore, while the 1968 resolution of the American Bar Association opposed changing the law to give a *party* (such as 3M or IBM) prior user rights, the 1982 resolution favors only a *personal* right to a first *inventor*. I attended the 1982 Section meeting and voted in favor of that Resolution because of its extremely limited nature. Any patent attorney worth his salt knows that in the United States an *inventor* is an individual, not a corporation. Any suggestion, therefore, that the 1982 Section resolution approved prior user rights broadly, in favor of corporations such as 3M or IBM and contrary to the 1968 ABA resolution, is fatuous at best.

I respectfully request that this letter and its attachments be included in the record of the August 9, 1994 hearings concerning the "Patent Prior User Rights Acts of 1994".

Very truly yours,

DONALD W. BANNER.

ASSOCIATION OF UNIVERSITY TECHNOLOGY MANAGERS, INC.,
 DIRECTOR OF TECHNOLOGY TRANSFER,
Corvallis, OR, August 10, 1994.

Senator DENNIS DECONCINI,
Hart Senate Office Building,
Washington, DC.

DEAR SENATOR DECONCINI: It has come to my attention that, during the August 9, 1994, Senate hearing on Prior User Rights Legislation, the impression was given that the Association of University Technology Managers (AUTM) and Universities endorse the Prior User Rights Legislation being proposed.

AUTM does not endorse this bill. We have agreed not to actively oppose the bill in its current form. This position was taken with the understanding that you will withdraw the bill from consideration if it becomes controversial and gets changed.

Enclosed you will find a copy of my June 5, 1994, letter to AUTM members informing them of AUTM's stance, not to actively oppose the bill. You will also note that the letter states that we would rather not have any form of Prior User rights.

The decision not to actively oppose the current Prior User Rights Legislation is simply a position taken by our organization which consists of individual memberships not institutional memberships. AUTM's position is not necessarily the position of the majority of United States Universities.

I would appreciate your setting the record straight if the impression was given that AUTM endorses the Prior User Rights Legislation. We do not endorse it.

Sincerely,

WILLIAM HOSTETLER,
President.

PURDUE RESEARCH FOUNDATION,
 OFFICE OF TECHNOLOGY TRANSFER,
West Lafayette, IN, August 10, 1994.

Senator DENNIS DECONCINI,
Hart Senate Office Building,
Washington, DC.

DEAR SENATOR DECONCINI: It has come to my attention that, during the August 9, 1994 Senate hearing on Prior User Rights legislation, the impression was given that the Association of University Technology Managers (AUTM), and U.S. Universities in general, endorse the Prior User Rights legislation being proposed.

I am a university licensing professional and an AUTM Board of Trustees member and I clearly do not endorse this bill. It is my view that there should not be any form of Prior User Rights.

It is my duty as a university licensing professional to see that commercially important, university research results are made available to the public. One tool I use is the university-industry license agreement Prior User Rights discourages this type of commercialization arrangement.

Accordingly, for the record, please know that I do not endorse the Prior User Rights legislation and believe it is detrimental to the effort of commercializing federal funded research results.

Respectfully,

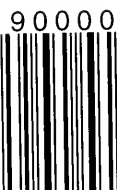
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